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EXPORT OF U.S. TELECOMMUNICATIONS PRODUCTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

MAY 3, 1985

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EXPORT OF U.S. TELECOMMUNICATIONS PRODUCTS

FRIDAY, MAY 3, 1985

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable John C. Danforth (chairman) presiding.

Present: Senators Danforth, Chafee, Grassley, Bentsen, and Baucus.

[The press release announcing the hearing and the prepared statements of Senators Chafee, Grassley, and Baucus follow:]

[Press Release No. 85-021, Apr. 23, 1985]

FINANCE COMMITTEE SETS TELECOMMUNICATIONS TRADE HEARING ON MAY 3

Senator Bob Packwood (R-Oregon), Chairman of the Senate Committee on Finance, announced today that the Committee's Subcommittee on International Trade has scheduled a hearing on two bills dealing with the export of U.S. telecommunications products.

Chairman Packwood said the Subcommittee on Trade's hearing is scheduled to begin at 9:30 a.m., Friday, May 3, 1985, in Room SD-215 of the Dirksen Senate Office Building.

The Chairman said Senator Jack Danforth (R-Missouri), Chairman of the Subcommittee on International Trade, would preside at the May 3 hearing.

The hearing will review S. 942, a bill designed to press nations to remove trade barriers to U.S. exports of telecommunications equipment and services; and on S. 728, a bill to prohibit the entry of Japanese telecommunications products into the United States until Japanese markets are open to U.S. telecommunications goods.

S. 942 was introduced by Senator Danforth and S. 728 was introduced by Senator John Chafee (R-Rhode Island), another member of the Committee on Finance.

Chairman Packwood said S. 942 is different from a telecommunications bill introduced by Senator Danforth last year. S. 942 provides negotiating authority and leverage for the U.S. to achieve access to foreign markets for U.S. telecommunications exports comparable to that enjoyed by foreign companies doing business in the United States. For nations such as Japan, where agreements on telecommunications trade already exist, the bill would provide a results-oriented measure of success and mandatory retaliation in cases of agreement violations. The Committee on Finance Chairman added that markets other than Japan also remain closed to the U.S. telecommunications exports.

Senator Chafee's bill, S. 728, would close U.S. markets to Japanese telecommunications exports until the President certifies to the openness of the Japanese market for U.S. telecommunications exports.

U.S. counter-measures provided in S. 942 include increases in tariffs, restrictions on the registration or approval of equipment from other nations, restrictive government procurement and other steps.

STATEMENT BY SENATOR JOHN H. CHAFEE

Mr. Chairman, for more than 4 years now the administration has worked to achieve a better balance in our bilateral trade relations with Japan. Yet despite the best efforts of our trade negotiations market access in Japan is still far from a reality.

Negotiations toward a more equitable trade relationship with Japan have become a disheartening, repetitious game. The Japanese beg for patience while deliberately creating new and sophisticated obstacles to U.S. entry into their markets. We have played out this game on cigarettes, beef, citrus, and satellites.

We are here today because of our concern over the stance the Japanese have taken in recent negotiations to obtain access for American companies to their telecommunications market. This is a sector where we make the best equipment in the world and are far superior in software driven services.

Because of the privatization of the Japanese market, making NTT a private company and opening up to the market to all, we set April 1 as our goal for achieving market opening before their new rules were set in concrete. However, April 1 has come and gone without the new and major concessions we had hoped for.

We hear in the press that the Japanese have agreed to some additional demands of our negotiators. I believe they are calling this phase one of a three phase process. Quite honestly I had hoped an administration witness would appear today to bring us up to date officially on the outcome of the most recent negotiations in Tokyo and advise us as to how we ought to proceed.

A few concessions however hardly warrant rejoicing over our success. The problems we have had with weak implementation by foot-dragging mid-level bureacrats in Japan leave little room for optimism that even these agreed concessions will be implemented to our advantage.

I wonder if the United States can continue to be Japan's free and open trading partner in the face of Japan's increasingly mercantilistic policies. In industry after industry Japan has by sophisticated techniques barred foreign entry into certain industries while it targeted, protected, and developed capacity not only for domestic supply but for worldwide competition as well. I am not criticizing the fact that Japan has striven for global competitiveness; we can do much to enhance our own competitiveness. But to develop weak industries by denying access to foreign competitors is an unacceptable industrial policy.

In these telecommunications talks we have fought tooth and nail for concessions and still American companies will face notice and registration requirements before they can provide certain high speed data transmission networks—the value added networks.

This is one of those areas where we are the most advanced and the Japanese have quite a way to go to catch up. We have the edge and I don't believe for one moment that somehow these registration requirements will not be used to delay our entry into Japan until they are better able to compete or until many of the market opportunities are simply gone.

We have no choice but to take drastic steps. The legislation I have sponsored would close our market to Japanese telecommunications equipment until the Japanese are ready to give us true and equal access to theirs. S. 728 would deny entry to their equipment until U.S. trade officials certify that we are able to sell in Japan on the same basis they have been selling to us.

In 1984 the United States intelecommunication ran a $900 million trade deficit with Japan. Japan's share of our market continues to grow. According to the International Trade Commission, the growth rates of U.S. imports of telephone and telegraph apparatus from Japan exceeded the rate of increase from all other sources. By 1981, Japan attained almost 50 percent of the market share of imports of these products or $500 million in value. This market share has continued to grow.

I do not cite these figures to make the case for keeping out Japanese products. I have always advocated that we maintain an open market for competitive Japanese products. Japanese inroads into the United States were facilitated by the AT&T divestiture, which amounted essentially to a unilateral and unconditional opening of our market. Given this kind of access to the U.S. market, we have every right to demand openings on the part of the Japanese.

How many times do we have to insist that the Japanese markets be opened? American telecommunications and electronics producers clearly deserve a fair chance to compete in the markets of their bigger competitor. Furthermore, Japanese consumers clearly deserve the chance to buy the best products available.

Admittedly it isn't easy to penetrate the Japanese market but let us have that opportunity. In some areas like telecommunications I have no doubt we will be suc-

cessful; in others perhaps we need the discipline of competing alongside our Japanese counterparts. The point is we must have real and true access.

How do we achieve that access? My colleague Senator Danforth has proposed that we negotiate a while longer to reach bilateral of multilateral agreements and equip the administration with the means to retaliate if no agreements materialize or if commitments are not lived up to. We do need to address the problems we have with Europe and other countries whose markets are not even as open as Japan's.

On the other hand I have proposed that we proceed to close the market and in a forceful draconian way compel the Japanese to open their market. After all we have already had an agreement with NTT for years and not a single permanent central office switch, for example, where we are both price competitive and technoiogically competitive, was purchased.

The American people and this Congress have reached a point of frustration. I, for one, being one of the most supportive in this body of the accessibility of the American market to Japanese products, have reached a frustration point as well. We must act to show the Japanese that we are serious. We cannot relegate foreign trade and the future competitiveness of our growth sector—high technology—to the bottom of the list of our priorities with our allies.

We must act swiftly to maintain the edge we have in this sector. We are not trying to rectify past difficulties. We now have the opportunity to influence Japan's regulatory framework with respect to imports into a newly-privatized market where we can be very competitive. If draconian steps are required to exercise this influence then so be it.

I welcome the views of the witnesses today on the best way to achieve this goal.

Thank you.

Statement by Senator Charles E. Grassley

Mr. Chairman: I guess I'm pessimistic about whether or not we have a long-term trade strategy, since we have been so soft in the way that we have approached competition and the necessary negotiations that go on with our so-called trading partners. We never seem willing to back up what we say and it seems like we are always trying to put out trade fires.

Congress is always running there with a bucket full of water. If we use a hose, the hose isn't long enough, or there isn't enough water pressure. We never quite get the job done. I just wonder if we thought enough about an overall trade policy.

I know that in 1981 and 1982 I made a suggestion for a domestic economic and trade summit in which we would have the best people in our country from academia, labor, business, Government, and agriculture get together to establish an overall trade policy similar to what had been done under the Williams Commission. Unfortunately, that wasn't really taken very seriously or given very serious consideration.

If we don't get some sort of an overall strategy . . . not just in the telecommunications but in everything . . . we are going to have to resolve these approaches through hearings like this, through legislation . . . always trying to play catch up.

That is why we always look like a paper tiger in international trade. It seems to me like not only in telecommunications but in so many things in foreign trade we are going to have to get our act together and have an overall strategy or we are always going to be having a brush fire to fight.

I commend Senator Danforth and Senator Chafee for their active participation in trying to resolve our telecommunications trade imbalance with Japan as well as other trading partners. However, I would suggest we begin looking more long-term rather than spend all our time trying to put out each brush fire that may ultimately consume that entire forest.

Statement by Senator Max Baucus

INTRODUCTION

Thank you, Mr. Chairman.

I'm delighted that you called today's hearing.

This Committee needs to keep a close watch over all four areas of the so-called "MOSS" negotiations with Japan. This important hearing on the first of those areas to reach some interim progress serves to intensify the Committee's focus on the nation's trade problem.

As you know, the problem's getting worse.

Earlier this week, the Commerce Department announced that our first quarter trade deficit was $32.8 billion. That's about $5 billion larger than the previous quarter's deficit. In fact, it's larger than our annual trade deficit five years ago.

This huge trade deficit is not just some abstract statistic.

It represents mines and factories closing down.

It represents good, hard, American workers losing their jobs.

And it's a sign of an economy threatening to collapse under the accumulating weight of foreign imports.

TELECOMMUNICATIONS

The telecommunications industry is a good illustration of our trade problem.

Last year we had a sectoral trade deficit. We imported about $1 billion more worth of telecommunications products than we exported.

This makes no sense. Our industry is the best in the world. Our engineers are innovative. Our workers are efficient.

So what's going on?

Shakespeare wrote that "the fault is not in our stars, but in ourselves."

That's true here. The major problem is with ourselves.

We've made economic decisions as if the U.S. exists in serene isolation, unconnected to foreign producers and foreign markets. We've made trade policy the poor stepchild of domestic policy.

Let me be specific. A few years ago, telecommunications deregulation may or may not have made sense as domestic policy.

But as trade policy, the way we did it was a disaster. We unilaterally invited the world to partake of our $20 billion telecommunications market. Our trading partners were delighted to accept the invitation. But they kept their own markets nailed shut.

Take the case of Japan. Japan has captured one-tenth of our telecommunications market. We have only one-twenty fifth of theirs.

So now we're trying to extract reciprocal concessions retroactively.

It's been tough going.

The privatization of NTT was a step in the right direction. I'm glad to hear of more progress drafting the implementing ordinances.

But we must remain somewhat skeptical. We want to see more than ordinances. We want to see results.

Between ordinances and results are at least three more hurdles.

First, the regulations implementing the ordinances. They must be fair.

Second, the attitude of the bureaucrats who administer the new system. Impartiality is required.

And third, the attitude of Japanese companies and consumers. It must change from "buy Japanese" to one giving more consideration to competitive U.S. products. Prime Minister Nakasone took a good step in this direction two weeks ago, when he made a televised address encouraging Japanese consumers to buy more foreign goods. But further steps will be necessary.

THE DANFORTH-BENTSEN BILL

The problem is not just Japan. It's also Canada, the countries of the European Community, and the newly industrialized countries.

We all know that none of these countries will open their telecommunications markets just because we ask them to. Instead, it will take sustained pressure.

The Danforth-Bentsen bill provides the right kind of pressure. If other countries insist on telecommunications protectionism, we'll simply revoke the windfall we gave them a few years ago. We'll close our market, selectively. That's sensible and fair.

WARNING

Let me say one more thing. This episode should be a lesson for the Administration and for Congress.

When we make major economic policy decisions, whether they involve telecommunications deregulation, tax reform, or any other issue, we must carefully consider how our decision affects America's trade competitiveness.

Otherwise, we'll continue to undermine American companies that are trying hard to compete in a fierce international market, making our trade deficit grow each time.

CONCLUSION

Mr. Chairman, I look forward to hearing about progress in the telecommunications area. It is an important industry. But let me remind my colleagues and the Administration that other major trade issues with Japan remain unresolved, like forest products. I would not want the Japanese or our own negotiators to get the impression that if they "fix" the telecommunications problem, Congress will lose interest and take the pressure off.

We in this Committee must—and I'm sure my colleagues will join me in this—insist on progress on the other issues as well.

II

99TH CONGRESS
1ST SESSION

S. 942

To promote expansion of international trade in telecommunications equipment and services, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 17 (legislative day, APRIL 15), 1985

Mr. DANFORTH (for himself, Mr. BENTSEN, Mr. LAUTENBERG, Mr. WILSON, and Mr. INOUYE) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To promote expansion of international trade in telecommunications equipment and services, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Telecommunications Trade Act of 1985".

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that—

(1) rapid growth in the world market for telecommunications products and services will continue for several decades;

(2) the United States can improve prospects for—

(A) the growth of—

(i) United States exports of telecommunications products and services, and

(ii) export-related employment and consumer services in the United States, and

(B) the continuance of the technological leadership of the United States,

by undertaking a program to achieve an open world market for trade in telecommunications products, services, and investment;

(3) many foreign markets for telecommunications products, services, and investment are characterized by extensive government intervention (including restrictive import practices and discriminatory procurement practices) which adversely affect United States exports of telecommunications products and services and United States investment in telecommunications;

(4) unfair and discriminatory trade practices in foreign countries threaten the loss of jobs in the United States telecommunications industry;

(5) the open nature of the United States telecommunications market, accruing from the liberalization and restructuring of such market, has resulted, and will continue to result, in a dramatic increase in imports of

telecommunications products and a growing imbalance in competitive opportunities for trade in telecommunications; and

(6) unless this imbalance is corrected through the achievement of substantially equivalent competitive opportunities for United States telecommunications products and services in foreign markets, the United States should avoid granting continued open access to the telecommunications products and services of such foreign countries in the United States market.

(b) PURPOSES.—The purposes of the Act are—

(1) to foster the economic and technological growth of the United States telecommunications industry and all United States persons who benefit from a high quality telecommunications network;

(2) to ensure that countries which have made commitments to open telecommunications trade fully abide by those commitments; and

(3) to achieve a more open world trading system for telecommunications products and services through negotiation and achievement of substantially equivalent competitive opportunities for United States telecommunications exporters and their subsidiaries in those markets in which barriers exist to free international trade.

TITLE I—ACTIONS TO ACHIEVE COMPETITIVE OPPORTUNITIES

SEC. 101. INVESTIGATION OF FOREIGN TRADE BARRIERS.

(a) ANAYLSIS OF BARRIERS.—By no later than the date that is 6 months after the date of enactment of this Act, the United States Trade Representative, in consultation with the Secretary of Commerce and the interagency trade organization established under section 242(a) of the Trade Expansion Act of 1962 (19 U.S.C 1872), shall—

(1) for purposes of section 102, identify and analyze all acts, policies, and practices in the markets of foreign countries that deny to telecommunications products and services of United States firms and their subsidiaries any competitive opportunities that are substantially equivalent to the competitive opportunities available to such products and services of foreign companies and their United States subsidiaries in the markets of the United States, and

(2) for purposes of section 103, shall determine which of such acts, policies, or practices—

(A) is inconsistent with the provisions of, or otherwise denies benefits to the United States under, any trade agreement,

(B) is unjustifiable and burdens or restricts United States commerce, or

(C) otherwise has the effect of—

(i) nullifying or impairing any benefit from concessions or commitments to the United States under any agreement, or

(ii) impeding attainment of any objective of any agreement to which the United States is a party.

(b) FACTORS TO BE TAKEN INTO ACCOUNT.—

(1) In conducting the analysis under subsection (a)(1), the United States Trade Representative shall take into account the following factors:

(A) the economic benefits (actual or potential) accruing to firms in each foreign country and to their United States subsidiaries from the open access to the United States telecommunications market that has resulted from the liberalization and restructuring of such market; and

(B) actual patterns of trade, including sales of telecommunications products and services in foreign countries by United States firms and their subsidiaries in relation to the international competitive position and export potential of such products and services.

(2) In making determinations under subsection (a)(2), the United States Trade Representative shall

consider as dispositive any evidence of actual patterns of trade (including sales of telecommunications products and services in a foreign country by United States firms and their subsidiaries) that do not reflect patterns of trade which would reasonably be anticipated to flow from the concessions or commitments of such country based on the international competitive position and export potential of such products and services.

(c) DISCONTINUANCE OF INVESTIGATION.—

(1) The United States Trade Representative may exclude any country from the investigation conducted under subsection (a) if the United States Trade Representative determines that the potential market in such country for United States telecommunications products and services is not substantial.

(2) Before making a final determination under paragraph (1) to exclude any foreign country from the investigation conducted under subsection (a), the United States Trade Representative shall—

(A) consult with the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives regarding such proposed exclusion,

(B) publish notice of such proposed exclusion in the Federal Register and the reasons for such proposed exclusion, and

(C) provide an opportunity for written public comment on such proposed exclusion.

(d) REPORT TO CONGRESS.—By no later than the date that is 6 months after the date of enactment of this Act, the United States Trade Representative shall submit a report on the analysis and determinations made under subsection (a) to the Committee on Finance and the Committee on Commerce, Science and Transportation of the Senate and to the Committee on Ways and Means and the Committee on Energy and Commerce of the House of Representatives.

SEC. 102. ACTION BY THE PRESIDENT IN RESPONSE TO INVESTIGATION.

(a) INITIAL ACTION.—

(1) Upon conclusion of the investigation conducted under section 101, the President shall enter into negotiations with those foreign countries whose acts, policies, or practices are identified under section 101(a)(1) for the purpose of entering into trade agreements under section 201 which provide to the telecommunications products and services of United States firms and their subsidiaries competitive opportunities in the markets of such countries that are substantially equivalent to the

competitive opportunities available in the United States market to such products and services of foreign firms and their United States subsidiaries.

(2)(A) The general objectives of negotiations conducted under paragraph (1) shall be—

(i) to obtain multilateral or bilateral agreements (or the modification of existing agreements) that provide to the telecommunications products and services of United States firms and their subsidiaries competitive opportunities in foreign markets that are substantially equivalent to the competitive opportunities available in the United States market to such products and services of foreign firms and their United States subsidiaries;

(ii) to correct the imbalance in competitive opportunities accruing from uncompensated reductions in barriers to the access of foreign firms and their subsidiaries to the United States telecommunications market; and

(iii) to facilitate the increase in United States exports of telecommunications products and services to a level commensurate with the competitive position of the United States telecommunications industry.

(B) In the negotiations conducted under paragraph (1), the President shall pursue specific objectives in order to reduce or eliminate foreign barriers to United States exports of telecommunications products and services, including (but not limited to)—

(i) national treatment for such products and services of United States firms and their subsidiaries;

(ii) most-favored-nation treatment for such products and services;

(iii) nondiscriminatory government procurement policies with respect to such products and services;

(iv) equipment standards and procedures for certification of equipment that do not exceed the minimum standards and procedures necessary to protect the telecommunications network;

(v) reduction or elimination of customs duties on telecommunications products;

(vi) elimination of subsidies, dumping, violations of intellectual property rights, and other unfair trade practices that distort international trade in telecommunications;

(vii) elimination of investment barriers that restrict the establishment of foreign-owned busi-

ness entities which market telecommunications products and services; and

(viii) monitoring and dispute settlement mechanisms to facilitate compliance with telecommunications trade agreements.

(C) In pursuing the objectives described in subparagraphs (A) and (B) and in establishing the strategy of the United States in negotiations conducted under paragraph (1), the President shall take into account the factors described in section 101(b)(1).

(b) ACTIONS TO BE TAKEN IF NO AGREEMENT OBTAINED.—

(1) If the President is unable to enter into an agreement under section 201 with any foreign country described in subsection (a)(1) which achieves the objectives described in subsection (a)(2)(A), the President shall, by no later than the date that is 2 years after the date of enactment of this Act, take whatever actions authorized under paragraph (3) against such country that are necessary to fully achieve such objectives.

(2) In taking action under paragraph (1), the President shall first take those actions which most directly affect trade in telecommunications products and services with the country concerned.

(3) The President is authorized to take any of the following actions under paragraph (1):

(A) terminate, withdraw, or suspend any portion of any trade agreement entered into under—

(i) the Trade Act of 1974,

(ii) section 201 of the Trade Expansion Act of 1962, or

(iii) section 350 of the Tariff Act of 1930,

with respect to any duty or import restriction imposed by the United States on any telecommunications product;

(B) take any action described in subsection (b)(2) or (c) of section 301 of the Trade Act of 1974 with respect to any telecommunications product that is subject to registration or approval by the Federal Communications Commission under part 2, 15, or 68 of title 47 of the Code of Federal Regulations;

(C) prohibit the Federal Government from purchasing the telecommunications products of any specified foreign country;

(D) increase domestic preferences under title III of the Act of March 3, 1933 (41 U.S.C. 10a, et seq.) for purchases by the Federal Government

of telecommunications products from any specified foreign country;

(E) suspend any waiver of domestic preferences under title III of the Act of March 3, 1933 (41 U.S.C. 10a, et seq.) which may have been extended to any specified foreign country pursuant to the Trade Agreements Act of 1979 with respect to telecommunications products or any other products;

(F) order the appropriate Federal officials to deny Federal funds or Federal credits for purchases of the telecommunications products of any specified foreign country;

(G) suspend, in whole or in part, benefits accorded articles from specified foreign countries under title V of the Trade Act of 1974 (19 U.S.C. 2461, et seq.); and

(H) take any other action pursuant to subsection (b) or (c) of section 301 of the Trade Act of 1974 with respect to—

(i) any product other than a telecommunications product of such country, or

(ii) any service of such country.

(4)(A) Notwithstanding section 125 of the Trade Act of 1974 and any other provision of law, if any por-

tion of a trade agreement described in paragraph (3)(A) with a foreign country is terminated, withdrawn, or suspended under paragraph (1) with respect to any duty or nontariff import restriction imposed by the United States on products of such foreign country, the rate of such duty provided for in rate column number 2 of the Tariff Schedules of the United States shall apply to such products after the date on which such termination, withdrawal, or suspension takes effect.

(B) Notwithstanding subparagraph (A) of this paragraph, section 125 of the Trade Act of 1974, and any other provision of law, if any portion of a trade agreement described in paragraph (3)(A) is terminated, withdrawn, or suspended by the President under paragraph (1) with respect to any duty imposed on the products of any foreign country before the date that is 2 years after the date of enactment of this Act, the President may delay (to such extent as the President may provide by proclamation) the application of subparagraph (A) with respect to such duty or import restriction until the date that is 2 years after the date of enactment of this Act.

(5) No action taken under paragraph (1) shall affect any binding obligations under any written con-

tract entered into before April 17, 1985, to which any national of the United States is a party.

SEC. 103. ACTION BY UNITED STATES TRADE REPRESENTATIVE IN RESPONSE TO INVESTIGATION.

(a) INITIAL ACTION.—If an affirmative determination is made under section 101(a)(2) with respect to any act, policy, or practice of a foreign country, the United States Trade Representative shall, by no later than the date that is 30 days after the date on which the report is submitted under section 101(d), take whatever actions authorized under subsection (c) against such foreign country that are necessary—

(1) to fully offset such acts, policies, and practices, and

(2) to restore the balance of concessions between the United States and such foreign country.

(b) REVIEWS BY THE UNITED STATES TRADE REPRESENTATIVE.—

(1) By no later than the date that is 1 year after the date on which the report is submitted under section 101(d), and annually thereafter, the United States Trade Representative shall conduct a review to assess the extent to which the objectives described in section 102(a)(2) are being met by each foreign country whose acts, policies, or practices were identified under section

101(a)(1), taking into account the factors described in section 101(b).

(2) If the United States Trade Representative determines, on the basis of a review conducted under paragraph (1), that a foreign country—

(A) is not in compliance with any agreement entered into under section 201, or

(B) has adopted an act, policy, or practice described in section 101(a)(2),

the United States Trade Representative shall take whatever actions authorized under subsection (c) that are necessary to restore the balance of competitive opportunities.

(c) AUTHORIZED ACTIONS.—

(1) The United States Trade Representative is authorized to take the following actions under subsection (a) or (b):

(A) terminate, withdraw, or suspend any portion of any trade agreement entered into under—

(i) the Trade Act of 1974,

(ii) section 201 of the Trade Expansion Act of 1962, or

(iii) section 350 of the Tariff Act of 1930,

with respect to any duty or import restriction imposed by the United States on any telecommunications product;

(B) take any action described in subsection (b)(2) or (c) of section 301 of the Trade Act of 1974 with respect to any telecommunications product that is subject to registration or approval by the Federal Communications Commission under part 2, 15, or 68 of title 47 of the Code of Federal Regulations; or

(C) take any other action pursuant to subsection (b) or (c) of section 301 of the Trade Act of 1974 with respect to any products other than telecommunications products or any services of such country.

(2) Actions described in paragraph (1)(C) may be taken against a foreign country under subsection (a) or (b) only if—

(A) the United States Trade Representative has taken all feasible actions described in subparagraphs (A) and (B) of paragraph (1) against such country, and

(B) the objectives of subsection (a) or (b) (as the case may be) have not be achieved.

(3) Notwithstanding section 125 of the Trade Act of 1974 and any other provision of law, if any portion of a trade agreement described in paragraph (1)(A) with a foreign country is terminated, withdrawn, or suspended under subsection (a) or (b) with respect to any duty or nontariff import restriction imposed by the United States on any products of such foreign country, the rate of such duty provided for in rate column number 2 of the Tariff Schedules of the United States shall apply to such products after the date on which such termination, withdrawal, or suspension takes effect.

(d) ACTIONS NOT TO AFFECT CERTAIN CONTRACTUAL OBLIGATIONS.—No action taken under this section shall affect any binding obligations under any written contract entered into before April 17, 1985, to which any national of the United States is a party.

SEC. 104. CONSULTATIONS.

(a) ADVICE FROM DEPARTMENTS AND AGENCIES.—For purposes of determining appropriate action under section 102(b) or 103, the President and the United States Trade Representative shall consult with the Secretary of Commerce, the Federal Communications Commission, and the interagency trade organization established under section

242(a) of the Trade Expansion Act of 1962 (19 U.S.C. 1872).

(b) ADVICE FROM THE PRIVATE SECTOR.—For purposes of identifying the objectives of negotiations conducted under section 102(a), conducting the investigation pursuant to section 101, and determining appropriate action under sections 102(b) and 103, the United States Trade Representative shall provide the opportunity for presentation of views by any interested party, including appropriate committees established under section 135 of the Trade Act of 1974.

(c) CONSULTATIONS WITH CONGRESS AND OFFICIAL ADVISORS.—For purposes of conducting negotiations under section 102(a), the President shall keep appropriate committees of the Congress, as well as appropriate committees established pursuant to section 135 of the Trade Act of 1974, currently informed with respect to—

(1) the negotiating priorities and objectives for each country involved;

(2) the assessment of negotiating prospects, both bilateral and multilateral; and

(3) any United States concessions which might be included in negotiations to achieve the objectives described in section 102(a)(2).

TITLE II—TRADE AGREEMENT AUTHORITY

SEC. 201. GENERAL TRADE AGREEMENT AUTHORITY.

(a) IN GENERAL.—During the 3-year period beginning on the date of enactment of this Act, the President may enter into trade agreements which meet the objectives described in section 102(a)(2)(A) with foreign countries which provide for—

(1) the harmonization, reduction, or elimination of—

(A) duties, or

(B) restrictions, barriers, or other distortions to international trade, or

(2) the prohibition of, or limitations on the imposition of—

(A) duties, or

(B) restrictions, barriers, or other distortions to international trade.

(b) AGREEMENT TREATED IN SAME MANNER AS AGREEMENT UNDER SECTION 102.—For purposes of section 151 and subsections (c), (d), (e), (f), and (g) of section 102 of the Trade Act of 1974, any trade agreement entered into under subsection (a) shall be treated as a trade agreement entered into under section 102 of the Trade Act of 1974.

(c) APPLICATION OF AGREEMENT BENEFITS.—Notwithstanding any other provision of law, any agreement en-

tered into under this section may provide that the benefits and obligations of such agreement—

(1) apply solely to the parties to the agreement, or

(2) not apply uniformly to all parties to such agreement.

The President shall take into account any actions which may be necessary to reconcile such treatment with United States international obligations.

SEC. 202. COMPENSATION AUTHORITY.

(a) IN GENERAL.—If—

(1) the President has taken action under section 102(b) with respect to any foreign country, and

(2) the United States Trade Representative is not required to take action against such country under section 103(a),

the President may enter into trade agreements with such foreign country for the purpose of granting new concessions as compensation for such actions taken by the President in order to maintain the general level of reciprocal and mutually advantageous concessions.

(b) AGREEMENT TREATED IN SAME MANNER AS AGREEMENT UNDER SECTION 102.—For purposes of section 151 and subsections (c), (d), (e), (f), and (g) of section 102 of the Trade Act of 1974, any trade agreement entered into

under subsection (a) shall be treated as a trade agreement entered into under section 102 of the Trade Act of 1974.

(c) FACTORS TO BE TAKEN INTO ACCOUNT.—In determining whether to enter into an agreement under subsection (a) and in determining the terms of such an agreement, the President shall take into account the factors described in section 101(b)(1).

TITLE III—MISCELLANEOUS PROVISIONS

SEC. 301. ACTION TO ENSURE COMPLIANCE WITH FCC REGULATIONS.

(a) IN GENERAL.—

(1) Any product of a foreign country that is subject to registration or approval by the Federal Communications Commission may be entered only if—

(A) such product conforms with all applicable rules and regulations of the Federal Communications Commission, and

(B) the information which is required on Federal Communications Commission Form 740 on the date of enactment of this Act is provided to the appropriate customs officer at the time of such entry in such form and manner as the Secretary of the Treasury may prescribe.

(2) For purposes of this subsection, the term "entered" means entered, or withdrawn from warehouse,

for consumption in the customs territory of the United States.

(b) COOPERATION.—The Federal Communications Commission, the Secretary of Commerce, and the United States Trade Representative shall provide such assistance in the enforcement of subsection (a) as the Secretary of the Treasury may request.

(c) COMPILATION OF INFORMATION COLLECTED.—At least twice every year, the Secretary of the Treasury shall compile the information collected under subsection (a)(2) into a summary and shall submit such summary to the Congress. Such information shall also be made available to the public.

SEC. 302. ACTIONS UNDER SECTION 301(c) OF THE TRADE ACT OF 1974.

(a) IN GENERAL.—Paragraph (6) of section 301(e) of the Trade Act of 1974 is amended by inserting ", or a foreign supplier of goods related to a service," after "foreign supplier of services".

SEC. 303. REPORT BY THE SECRETARY OF COMMERCE.

By no later than the date that is 6 months after the date of enactment of this Act, and at least once every 2 years thereafter, the Secretary of Commerce shall submit to the Congress a report on the impact of United States domestic policies and practices on the growth and international com-

petitiveness of the United States telecommunications industry. Such report shall include—

(1) a statement of the actions taken or recommended to overcome any domestic policies and practices found to inhibit the growth and international competitiveness of the United States telecommunications industry; and

(2) a statement which assesses the probable trade consequences of failure to take the actions identified in paragraph (1).

SEC. 304. TELECOMMUNICATION PRODUCT.

For purposes of this Act, the term "telecommunication product" means any articles classified under the following item numbers of the Tariff Schedules of the United States (19 U.S.C. 1202):

684.57	684.67	685.24	685.39
684.58	684.80	685.25	685.48
684.59	685.10	685.28	688.17
684.65	685.12	685.30	688.41
684.66	685.16	685.32	707.90.

99TH CONGRESS
1ST SESSION

S. 728

To prohibit the entry of Japanese telecommunication products until Japanese markets are open to United States telecommunication products.

IN THE SENATE OF THE UNITED STATES

MARCH 20 (legislative day, FEBRUARY 18), 1985

Mr. CHAFEE introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To prohibit the entry of Japanese telecommunication products until Japanese markets are open to United States telecommunication products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) no telecommunication products produced or manufactured (in whole or in part) in Japan may be entered, or withdrawn from warehouse, for consumption in the customs territory of the United States during the period which—

(1) begins on the date that is 15 days after the date of enactment of this Act, and

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(2) ends on the date on which the written statement described in subsection (b) is submitted to the Congress.

(b) The written statement referred to in subsection (a) is a written statement in which the Secretary of Commerce and the United States Trade Representative certify that telecommunication products which are produced or manufactured in the United States have equal access to the markets of Japan.

(c) For purposes of this Act, the term "telecommunication product" means any of the following articles of the Tariff Schedules of the United States (19 U.S.C. 1202):

684.57	685.10	685.24	685.48
684.58	685.12	685.25	685.49
684.59	685.14	685.28	688.17
684.65	685.16	685.30	688.18
684.66	685.18	685.32	688.41
684.67	685.20	685.34	688.42
684.80	685.22	685.39	707.90.

Senator DANFORTH. This is a hearing on S. 942, the Telecommunications Trade Act. It's the second version of the bill that was introduced and hearings were held last year. The original cosponsors of this bill are Senators Bentsen, Lautenberg, Wilson, in addition to myself.

The bill is predicated on several points. First, that the real market for telecommunications will be the source of rapid growth in the coming decades. Second, that the United States can increase U.S. telecommunications exports, export related employment, technological leadership and consumer service by achieving an open world trading system for telecommunications products, services and investment.

Third, foreign telecommunications markets are characterized by extensive government intervention, including restrictive import practices and discriminatory government procurement.

Fourth, these unfair discriminatory practices in the foreign countries threaten the loss of jobs in the U.S. telecommunications industry.

Fifth, deregulation of the U.S. market for telecommunications will result in dramatic increase in imports of telecommunications equipment and a growing imbalance of trade opportunities with respect to other countries.

And, finally, unless this imbalance is corrected through the achievement of substantially equivalent competitive opportunities abroad for U.S. telecommunications exports, the United States should avoid granting continued open access to foreign telecommunications products in this market.

In other words, the theory of this bill is that the telecommunications trade is going to be increasingly important; that as a result of AT&T divestiture, the American telecommunications market is going to be open to the rest of the world. The Bell companies are no longer going to be captives of Western Electric. They are going to be very lucrative markets for the rest of the world.

Traditionally, the telecommunications markets in other countries have been closed to the United States. We believe, cosponsors of this bill, that some method has to be reached for assuring that if other markets are going to be closed to us, we are going to have some leverage to open them. And that is the point of the bill.

The bill, basically, sets up a 6-month investigation period for the U.S. Trade Representative to determine the actual state of international trade in telecommunications, to identify barriers that exist. It grants to the President a 3-year period to negotiate trade agreements, either multilateral or bilateral in telecommunications. It provides that in the event that no trade agreements are reached within 2 years or after 2 years, the President is directed to correct imbalances in competitive opportunities through a range of sanctions that must be imposed by him. And with respect to countries where we now have agreements on telecommunications, it directs that the President is to impose sanctions in the event that those agreements are not lived up to after the 6-month period of time.

So it's two-track legislation. One track for those countries where there is already agreement; one track to encourage the President to enter into agreements within a reasonable period of time.

I am convinced that telecommunications is an area which is at the cutting edge of American opportunity. As we think about job opportunity and economic opportunity for our country, looking down the road, telecommunications should be an area where American know-how gives us the ability to compete very successfully in world markets. We are really going to be able to take advantage of that competition if we make sure that we have at least as good an opportunity of selling in other markets as people in other countries have the opportunity of selling in our market.

That doesn't exist right now. And, therefore, S. 942 is directed to go to that problem.

The hearing also, in addition to S. 942, which has been described, deals with another approach to the issue of telecommunications trade that has been offered by Senator Chafee. And that is S. 728. I'm not going to undertake to explain Senator Chafee's legislation because he's here today and he is much more able than I am to explain it.

But I think that what it indicates is that there is a convergence of opinion in the Senate that we must move to assure equal opportunity in telecommunications trade, and that Congress is very interested in achieving the correct legislative formula for accomplishing that objective.

Senator Chafee.

Senator CHAFEE. Thank you very much, Mr. Chairman. I have a statement here which I would like to put in the record, but basically what it says is that we've striven over many years to gain access to the Japanese markets. I feel very strongly that the Japanese have full access to our markets. I've never been for any form of quotas, restrictions, or protectionism. As you know, Mr. Chairman, I have always been opposed to automobile quotas in particular. If the Japanese build a better automobile or better mousetrap or better camera, whatever it is, so be it. They should have access to our markets. It helps our consumers.

But this is a two-way street, Mr. Chairman. And I feel very strongly that we must have access for our products to the Japanese markets. Now there have been all kinds of restrictions imposed arbitrarily by the Japanese—nontariff trade barriers against those goods in many instances where we are superior. They have locked off their markets and mastered the engineering technical superiority in a particular field and then flooded the world with those goods, not giving us a chance in the interim to have competed with them.

And the clearest cut evidence of that is in the telecommunications area. On April 1, there was deregulation of NTT which they are privatized. The regulations enacted to achieve that deregulation became clear-cut examples of our goods not having an opportunity to compete.

What my legislation says is that within 15 days after enactment of this legislation, our markets to Japanese telecommunications equipment would be closed, unless previous to that or thereafter the USTR and the Secretary of Commerce certify that we have access to the Japanese markets in telecommunications to the same extent that they have access to our markets. It seems that this is very specifically direct. It deals with the Japanese. It deals with a

particular form or piece of equipment that is definable. It is draconian, I admit, but, Mr. Chairman, everything else seems to have failed. As you so often have said, we are not in the business of sending messages. That seems to be a futile effort.

So, Mr. Chairman, I would hope that this committee would adopt my legislation or some form of your legislation, whatever might be in order to achieve the goals that we seek. And that goal is fairness. This isn't intended to keep anybody out. It's having free access to Japan as they have to the United States.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator Chafee.

Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

We have the President of the United States at the economic summit in Bonn talking about trade. But all I have seen thus far out of this administration is talk when it comes to trade. I've seen no coordinated, aggressive policy making trade a top priority.

I read in the papers this morning that the United States is trying to overcome the French objections to reaching an agreement that would lead to trade talks starting next year. Trouble is the administration hasn't done its homework. I don't think they know what they really want. And I don't think they know what they are willing to give up in order to get the concessions to open up markets to our products.

I'm told that one of the reasons they want to have new trade talks is because they want to cool the so-called protectionist sentiment in the Congress. Well, if they are concerned about that, then why aren't they here this morning? Why did the administration at the last minute decide not to send representatives this morning on the telecommunications trade bill?

We are told that the testimony they might give this morning could throw a wrench into the negotiations with the Secretary of State and the Japanese Foreign Minister this weekend. The Japanese are the ablest, maybe the toughest, negotiators we run into. I have a great admiration for them. But threats, pleas make no headway at all. I think what they understand and what they respect is action, and we haven't seen this.

You have a situation where you will get our trade representative to come up with a policy and then the Defense Department will rush in and say, oh, you can't do that; we are about to get some agreement on cruise missiles, and we don't want to upset the NATO countries, the European Common Market.

Or the Secretary of State comes in and says, no, you can't do that. That's a foreign policy ally of ours.

For years we have traded off economic points, economic positions to gain some point in foreign policy, a transitory one. We could do that once upon a time and we could afford that luxury because we were the dominant economic power in the world. Today we have got some tough competitors out there and they are peers of ours. And we need a tough, coordinated trade policy.

When they talk about a new trade round, the administration hasn't even been up to talk to us about it. We haven't the vaguest idea of their objectives. We have no earthly idea; nor do they have

any idea of our views on what the objectives should be in restructuring global trading rules.

It doesn't calm my concerns when the administration refuses to come before the Congress and discuss important telecommunications trade legislation. It doesn't calm my concerns when the administration refuses to come before the Congress to discuss the wide and rapid fluctuations in currency that are so disruptive to world trade. It doesn't calm my concerns when the administration refuses to come before the Congress and discuss our goals in new rounds of trade negotiations before launching those negotiations. All they have to do is study history a little bit.

The executive branch has the right to arrive at an executive agreement without consulting Congress. But all they have to do is look back to see what happened in Lyndon Johnson in that kind of a situation. When he went to Europe and thought he had worked out something on dumping agreements, and he came back and the Congress didn't back him up on it.

It takes communications and it takes understanding on both sides. I think the administration's trade policy is in disarray.

The President went to Bonn and he left his trade advisers at home. He did the same thing a year earlier when he talked trade with Prime Minister Nakasone. He left the Secretary of State. Now only he, the Secretary of State, and the Secretary of Defense were present. He came away with nothing but empty promises, pledges.

I think this trade legislation that we have before us now is necessary only because the administration has not taken the steps needed to restore free trade in telecommunications goods. They already have the legislative authority that they need to accomplish that. They are across the ocean talking about the benefits of free trade. And the dangers of protectionism. I simply cannot understand why we can't get them to sit down and talk with us about legislation that might well be the first step toward trying to open up some of these markets, and getting back to something that resembles free trade.

What you are seeing all around the world is a lessening in trade that has taken place since 1980 as related to the GNP in the world. Free trade, increased trade, will improve the lot of all the people around the world. John Chafee is absolutely right on that. We ought to be opening up these markets. And the chairman is absolutely right on that. What we are endeavoring to do is see that we have something that gets back to free trade.

Now who they are emulating around the world is not us. You get the lesser developed countries today and they are emulating Japan. That's the role model. Why should they emulate us with a big deficit in our budget, an enormous trade deficit? And yet they see Japan putting up protectionism, barriers, to protect their burgeoning industries and really expanding their economy. So South Korea, Taiwan, Singapore, Malaysia, that's where they head. Look at Mexico, Brazil. Same type of action.

It's going to take this kind of forceful action—and I'm sorry we have to resort to this, but I think this is the sort of thing that has to be done to open up those markets. Make them understand we are serious.

Mr. Chairman, I congratulate you on your leadership on this.

Senator DANFORTH. Thank you, Senator Bentsen.

The first panel is Mr. Edmund Fitzgerald, Northern Telecom; Mr. Thomas Campobasso, Rockwell International Trading Co., on behalf of the Electronic Industries Association; Mr. Baline Davis, Strategic Business and Market Planning, AT&T Technologies, on behalf of the Computer Business Equipment Manufacturers Association.

Mr. Fitzgerald.

STATEMENT OF EDMUND FITZGERALD, PRESIDENT AND CHAIRMAN OF THE BOARD, NORTHERN TELECOM LTD., NASHVILLE, TN

Mr. FITZGERALD. Good morning, Senator Danforth, and thank you very much for again inviting me to appear before your committee.

I also wish to thank you and your colleagues for your very diligent efforts in creating world markets for North American telecommunications products.

My name is Edmund Fitzgerald. I'm chairman of Northern Telecom. My company is the second largest manufacturer of telecommunications equipment in the United States, and is the world's largest producer of fully digital telecommunications switching equipment.

I have submitted a written statement to your committee regarding the bill S. 942, but I would like to emphasize four points that I have made in that submission.

No. 1. You may recall that in commenting on S. 2618, your telecommunications trade bill submitted in the last Congress, that I opposed trade reciprocity on a sectoral product-by-product or country-by-country basis. I certainly commend you for turning away from the sectoral approach of S. 2618 in your new bill. In my view, you have strengthened S. 942 immeasurably.

No. 2. I would like to encourage pragmatism in this Nation's approach to international trade and investment issues. To me, the concept of a level playing field is much more of a catchy phrase than a likely accomplishment. I believe the reality of today is we must seek the achievement of liberal trade policies which encourage trade expansion and which works to narrow trade inequities.

The best we can probably expect is a lumpy playing field with favorable as well as unfavorable lumps, and no persistent tilt in any one direction.

Precise judgments on trade equities are often complex and are often intertwined with other U.S. trade and political objectives. In any discussion of trade imbalances, you cannot overlook the disastrous impact of the strong U.S. dollar on U.S. telecommunications trade. Therefore, in addition to the leverage of your trade bill, we need to get our U.S. financial house in order through a reduction in the Federal budget deficit, which will lower interest rates and ultimately lower the value of the U.S. dollar against other world currencies.

And, finally, in my testimony of last September, I advised you of a joint project between NIPPON Telegraph and Telephone Corp., and Northern Telecom to develop what is now known as the KS-2

digital transportable emergency switch for use in the NTT network. This joint project, which has represented an investment of almost $10 million on the part of the two participants has provided Northern Telecom with an excellent opportunity to learn about the configuration, the protocols and the interfaces of the NTT network, and the objectives of NTT's new Integrated Services Network [ISN], which NTT intends to install in Japan during the next 10 years.

In turn, NTT has had the opportunity to learn more about Northern Telecom and our broad technological capabilities and our fully digital switching systems. The prototype KS-2 switch, which is a derivative of the Northern Telecom DMS-10 digital community dial office, will be delivered to Japan during the fourth quarter of 1985.

I am pleased to announce this morning that this experience has now borne significant fruit. On May 1, 1985 in Tokoyo, Japan, our two companies entered into a memorandum of understanding to enter into new studies leading to a long-term supply contract for the Northern Telecom DMS-10 as a digital central office switch in the NTT public network.

These DMS-10 switches will be produced at the Northern Telecom Inc. digital switching systems complex in Research Triangle Park, NC. These studies are to be concluded no later than December 31, 1985. Assuming compliance to this schedule and a successful consummation of the long-term supply agreement, we would expect Northern Telecom DMS-10 fully digital central office switches to begin entering the NTT network in late 1986 or early 1987. This would equate to a 5-year interval between initiation of sales activities at NTT and the installation of the first switch. As such, this interval would be equivalent to that experienced by Northern Telecom in introducing the first DMS-10 into the AT&T network in the United States in 1981.

I thank you, Senator, for this opportunity to again appear before your committee. I wish to assure you that Northern Telecom shall continue to make those investments in global market development necessary to take full advantage of the trade opportunities you are seeking to achieve for U.S. equipment producers.

Senator DANFORTH. Thank you, Mr. Fitzgerald.

[The prepared statement of Mr. Fitzgerald follows:]

STATEMENT OF EDMUND B. FITZGERALD
CHAIRMAN, NORTHERN TELECOM INC.
NASHVILLE, TENNESSEE

&

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
NORTHERN TELECOM LIMITED
MISSISSAUGA, ONTARIO

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE FINANCE COMMITTEE

ON
S. 942

WASHINGTON, D.C.
MAY 3, 1985

I am Edmund B. Fitzgerald, Chairman of Northern Telecom Inc. of Nashville, Tennessee and Chairman and Chief Executive Officer of Northern Telecom Limited of Mississauga, Ontario. I am an American and maintain my principal residence in the United States.

I have been employed for nearly 40 years by U.S. high technology companies and have been intimately involved with international trade and investment issues for at least the past 25 years. Prior to joining Northern Telecom five years ago as President of its U.S. subsidiary, Northern Telecom Inc., I served as Chairman of Cutler-Hammer, Inc., of Milwaukee, Wisconsin and subsequently as Vice Chairman of the Eaton Corporation of Cleveland, Ohio.

In the early 1970's I spent three years as Vice Chairman of the Industry Advisory Council of the U.S. Department of Defense (IAC) and am currently a Member of President Reagan's National Security Telecommunications Advisory Committee (NSTAC). I am also Chairman of the U.S. Committee for Economic Development (CED) in Washington, D.C. and am a former President of the National Electrical Manufacturers Association (NEMA) in the United States.

I want to thank you, Senator Danforth, for this opportunity to again appear before you and present my views on S. 942. In September 1984 you gave me a similar opportunity to comment on your bill S. 2618. I also wish to thank you for your continuing interest in the expansion of internationl trade opportunities for telecommunications equipment. As the second largest manufacturer of telecommunications equipment in the United States and in North America, Northern Telecom has much to gain from the achievement of your objective.

In these days of heightened emotions regarding trade issues, the posture of Northern Telecom in the U.S. market has been often incorrectly characterized in presentations to the Congress, to the FCC, the Department of Commerce, the USTR and the U.S. International Trade Commission. Even though I covered this issue in my previous appearance before you, I would like to again review our U.S. posture for the sake of clarity.

Northern Telecom Limited is a Canadian chartered corporation with 52% of our shares owned by Bell Canada Enterprises Inc., a large Canadian holding company. Our shares not owned by BCE, Inc., are traded on public exchanges in Canada, the U.S. and Europe.

Approximately 50% of our shares not owned by BCE, Inc. are owned by investors resident in the United States.

Northern Telecom, in practice, operates as a North American corporation with approximately 68% of its revenue produced in the U.S., 22% in Canada and 10% in non-North American markets. As noted previously, our U.S. company, Northern Telecom Inc. headquartered in Nashville, Tennessee, is the second largest manufacturer of telecommunications equipment in the United States. It currently employs 20,000 people in 15 U.S. manufacturing facilities, 15 U.S. R & D centers and more than 100 U.S. sales, service and support offices. Its U.S. investment base is nearly $2 billion, and similar to its employment, continues to grow.

Northern Telecom is the largest supplier of fully digital switching systems in the world with almost 30 million equivalent lines either installed or on order. We believe we were the largest supplier of both public (central office) and private (PBX) fully digital switching systems in the U.S. in 1984. Our U.S. value added is approximately 85%, which is almost the same level of local content achieved in the digital switching systems we produce in Canada for sale in Canada. The values not added domestically in either country represent

components and subassemblies imported from about 10 countries and is an indication of the global integration of the electronics manufacturing business today. I doubt that any other U.S. telecommunications supplier has a domestic value added significantly higher than Northern Telecom Inc. I might add that Northern Telecom Inc. exports approximately $100 million of its output from its U.S. facilities.

In point of fact, the International Trade Commission, the U.S. Department of State, the Export-Import Bank, and the U.S. Commerce Department all regard Northern Telecom Inc. as a U.S. domestic equipment manufacturer.

Suffice it to say, Northern Telecom Inc. is a U.S. domestic manufacturer - the second largest manufacturer of telecommunications equipment in this country. We employ Americans, we pay taxes as Americans, we produce equipment for the American market and we well serve hundreds of American customers. We are a strong contributor to the American economy and to America's success in the telecommunications equipment industry. We are proud of our role as a U.S. corporation and as a good corporate citizen in the U.S.

Senator, I should like to use the opportunity you have so kindly given me to make four brief, but I believe pertinent, points:

1) To speak to the significant improvements contained in bill S. 942 as contrasted to bill S. 2618.

2) To comment on the inherent difficulties in precisely equating perceived trade opportunities and/or barriers.

3) To comment on the role of the strong U.S. dollar in the current U.S. unfavorable balance of trade, including trade in telecommunications equipment.

4) To update you on Northern Telecom's experience in Japan, which we described to you in some detail in our testimony last September.

In addition to these four specific points, we will be submitting in writing, directly to the committee, some suggestions on specific wording changes to clarify the intent of certain sections of your proposed bill.

When I first learned that you intended to prepare a new version of your telecommunications trade bill, I assumed your bill in the 99th Congress would be similar to S. 2618. It appears that S. 942 is a vastly improved version of S. 2618. Your bill this year is a tough, demanding, and forceful piece of trade legislation aimed at forcing open foreign markets for U.S. telecommunications equipment. The bill obviously reflects your frustration, and the frustration of many of your colleagues, with the fact that most major telecommunications markets in the world are much less open than is the U.S. market.

Major manufacturers who do not produce their equipment in the U.S. are making major inroads into the U.S. telecommunications market, while their home countries erect barriers to imports of U.S. telecommunications equipment. The U.S. market represents nearly half of the world market for telecommunications, so it is only to be expected that highly successful world-class telecommunications manufacturers from Europe

and Japan, would be attracted to the U.S. market. In all likelihood, all of us would, in fact, regard the attractiveness of our market and the involvement of world-class competition in it as desirable - were it not for the fact that telecommunications equipment produced in the U.S. faces persistent trade barriers rather than an open world trade system.

We at Northern Telecom strongly support an open world trading system with global market access for U.S. telecommunications equipment, and we support the basic purposes of S. 942. Your telecommunications trade bill seeks to secure for U.S. producers of telecommunications equipment and services "substantially equivalent competitive opportunities". Your new bill sends a strong signal to our trading partners that foreign market barriers must be eliminated so that equivalent opportunities exist for U.S. producers. I wish you every success in achieving a more open world trading system and global market access for U.S. telecommunications equipment producers.

You may recall that in commenting on S. 2618 we opposed trade reciprocity on a sectoral product by product or country by country basis. We commend you for turning away from the sectoral approach of S. 2618 in

your new bill. In our view it has strengthened S. ~~932~~ 942 immeasurably.

Having spent nearly 25 years as a private sector participant in the arena of international trade and investment, I fear I may have lost my initial naivete regarding the existence of unfettered free trade - much less fair trade. Likewise, the concept of a level playing field now appears to me to be much more of a catchy phrase than a probable accomplishment. Free trade like tax reform gives everyone a warm feeling of economic equity until those facets which personally benefit us come under attack.

I believe the reality of today is that we must seek to spread the application of liberal trade policies which encourage trade expansion and which tend to narrow the gaps in trade inequities. The best we can probably expect is a lumpy playing field with favorable as well as unfavorable lumps and no persistent tilt in any one given direction.

I make these observations not to dampen enthusiasm for what you are attempting to accomplish but to emphasize the difficulty of the task you are assigning to the USTR and the President to make very precise

judgements on trade equities that are often complex and intertwined with other U.S. trade and political objectives. Additionally, you are calling for harsh remedies to adjust these precisely defined inequities. In many cases the evidence disclosed may not be sufficient to justify the severity of the sanction prescribed. I wish the USTR and the President well in executing the responsibilities you are assigning to them. However, you are giving them a most difficult task which will require patience, persistence and infinite wisdom to accomplish.

In any discussion of trade inequities, you cannot overlook the disastrous impact of the strong U.S. dollar on our current trade imbalance. It has had a major negative impact on U.S. telecommunications trade, particularly with certain countries of Western Europe, in which U.S. product prices have increased 50% or more in the past two years due to the escalation of the U.S. dollar against the local currencies.

Again, I do not wish to denigrate the importance of the thrust of your bill to open world markets to U.S. telecommunications producers. However, even if we had completely open markets today there are few, if any, in which we could successfully compete with U.S. dollar

denominated exports from U.S. facilities. Therefore, in addition to the enactment of your innovative bill, we need to get our U.S. financial house in order through a reduction in the federal budget deficit which will, in turn, lower U.S. interest rates and ultimately the value of the dollar against other world currencies. Enactment of your bill without commensurate adjustment in the value of the dollar will not achieve the objectives you seek.

Over recent years, and, in particular the past few months, much of the U.S. Government's attention has been focused on the Japanese telecommunications market.

At the outset, Mr. Chairman, I think all of us in the U.S. telecommunications industry should commend you for the leadership you and other members of the subcommittee have given to current U.S.-Japan telecommunications negotiations. You have greatly contributed to the success of these negotiations, which we hope will result in a significant opening of the newly-liberalized Japanese telecommunications market to foreign suppliers. Your concern about the competitiveness of U.S. telecommunications suppliers worldwide, and your unrelenting determination to pursue enhanced trading opportunities for U.S. telecommunications manufacturers and suppliers who wish

to sell in Japan and the rest of the world is deeply appreciated.

Your primary focus on Japan is understandable in view of the U.S.-Japan negotiations over market access to the newly-liberalized Japan telecommunications market including the privatization of Nippon Telegraph and Telephone (NTT) and the authorization of competition in the telecommunications services business. And of course the on-going negotiations over the NTT procurement agreement has served to keep attention focused on Japan.

In the past few months of negotiations, the U.S. has made many demands of Japan and Japan has granted numerous concessions, including reduced performance standards for home and office telephone equipment; modification of some standards to fit U.S. requests; deletion of regulations requiring telephones to make the same buzzing sound; acceptance of U.S. test data; the promise to inform U.S. telephone equipment manufacturers of the complex protocols established for transmission of computer data on telephone lines so that U.S. makers can supply the right kind of equipment; another promise to consider having protocol set by an independent body to reduce chances it will be used to keep out advanced equipment, which Japanese companies are not able to produce;

registration requirements which will not keep U.S. companies from providing global service; and many others.

Japan has been responsive to our government's demands. I agree with you that it is essential to continue negotiation, and to monitor progress on the recent concessions Japan has made, and to continue to negotiate with Japan for open market access. In just the past month, Japan accepted the U.S. position on standards and certification of telecommunications equipment, which means we have "technical reciprocity" with Japan - a major achievement.

In my testimony before you last September, I noted that in my opinion, a major factor in the unfavorable North American balance of trade in telecommunications equipment was that non-North American producers had dedicated substantially greater time, financial and human resources to the development of the North American market than North American producers have dedicated to developing non-North American markets, particularly Japan. In many cases the charge of "closed market" has been made when the real problem has been the lack of sufficient investment in adequate market development.

Last September I also told you that I regarded the limiting factor in Northern Telecom's penetration of the market in Japan not to be an unwillingness on the part of Nippon Telegraph and Telephone to deal with us, but rather our capacity to recruit and train Japanese speaking telecommunications engineers and sales personnel, our capacity to produce documentation in the Japanese language and format, and our capacity to make the necessary modifications to our equipment to make it compatible with the Japanese network.

In other words, our degree of success in penetrating the Japanese market did not depend so much on trade barriers as upon our ability to serve our customer, NTT, in a manner equivalent to that offered by their current indigenous suppliers.

Since I last appeared before you, Northern Telecom has continued its program of substantial technological, financial and human resource investment in the development of Japan's telecommunications market. We have recruited a skilled, experienced and multi-lingual staff in the offices of Northern Telecom Japan Inc. in Tokyo. We have invested in product modification and documentation translation in order to make our products more attractive to customers in Japan. We received certification in less than six months to connect our SL-1 digital PBX and many of its data options to the NTT network. We have also been selected by NTT as one of two designated suppliers of large line size digital PBX's.

Our order input to date has been modest. We have sold to NTT 70,000 single line telephone sets of two different styles for which certification was obtained in one month from date of documentation submittal. NTT has purchased a 1000 line SL-1 digital PBX from us which is now installed and operating at the Hananomaki Hotel.

We have also sold to or have on order from private telecommunications users a reasonable quantity of SL-1 digital PBX's for connection to the NTT network.

The number of sales opportunities currently being presented to us in Japan has multiplied many times since we began serious investment in that market in early 1982. We expect to receive over $20 million of new orders in Japan in 1985 and to ship $15 million of product. This represents a three-fold increase from 1984.

In 1983, NTT announced that Northern Telecom had been selected to jointly develop with NTT, under what is called a Track III procurement, an emergency transportable digital switch. This switch, now known as the KS2, is a derivative of the Northern Telecom DMS-10 digital community dial office. The initial prototype of the KS2 is scheduled for delivery to NTT in the 4th quarter of 1985.

This Track III procurement process has been a very valuable experience for both Northern Telecom and NTT. It has provided us with an excellent opportunity to learn about the configuration, protocols and interfaces of the NTT network and the objectives of the new integrated

services network to be developed and installed in Japan by NTT during the next ten years. In turn, it has provided NTT the opportunity to learn more about Northern Telecom and our broad technological capabilities in fully digital switching system. For our part, we have been pleased to confirm that the NTT network, although different from the North American public network, is more similar to the North American network than the public networks of Western Europe and many other parts of the world. Conformance to the NTT network, however, has required Northern Telecom to make significant hardware and software modifications to our network products.

This joint educational project has represented a substantial investment (approaching $10 million) on the part of both Northern Telecom and NTT but represents the type of activity and investment which must be undertaken to establish the mutual trust and respect required to support a long term, mutually advantageous relationship between a sophisticated telecommunications services provider and a competent equipment supplier.

It is in fact very similar to the process by which Northern Telecom became a supplier to the network of AT&T in the United States also using the DMS-10 as the entry product. This activity, which began in 1976, predated

the AT&T divestiture by eight years. Product presentations were made at the AT&T Basking Ridge headquarters, in 1977 and initial quotations were requested in 1978. In November, 1979 the Bell System Purchased Products Division announced approval of the Northern Telecom DMS-10 for sale to the Bell Operating Companies.

A supply agreement for the DMS-10 was signed in February, 1980 and the first DMS-10 was placed in service in the Bell System on December 30, 1981 - nearly five years following the commencement of Northern Telecom sales activities. There are now over 200 DMS-10's in service in the Bell Operating Companies with the expection that this number will more than double in the next two to three years.

It is, therefore, with considerable satisfaction that I am able to report today that Northern Telecom's experience with NTT in Japan has become ever more similiar to our experience with AT&T and the Bell Operating Companies in the United States.

On May 1, 1985 we signed in Tokyo, Japan a memorandum of understanding with NTT setting forth the intention of our two companies to now enter into new

studies leading to a long term supply agreement for the DMS-10 as a digital central office switch in the NTT public network. The DMS-10 switches to be provided under the long term supply agreement shall be produced at the Northern Telecom Inc. Digital Switching Systems complex in Research Triangle Park, North Carolina.

The memorandum signed in Tokyo takes note of the knowledge that each of our companies has gained of the other through our previous studies dealing with the development of the KS2 emergency transportable digital switch and sets forth our intention to undertake these new studies relating to the technological and economic evolutions necessary to qualify the DMS-10 for central office service in the NTT network.

These new studies are to be concluded no later than December 31, 1985. Assuming compliance to the schedule and the successful consummation of a long-term supply agreement, we would expect Northern Telecom DMS-10 digital central office switches to begin entering the NTT network in late 1986 or early 1987. This would equate to a five year interval between initiation of sales activities at NTT and the installation of the first DMS-10 switch. As such, this would be exactly the same interval experienced by Northern Telecom in supplying

the DMS-10 to the U.S. networks of AT&T and the Bell Operating Companies.

It is difficult at this time to predict the number of DMS-10's that may eventually become part of the NTT network. However, based on the success of this product in many other public networks we are confident that the ultimate quantity will be substantial.

In summary, Senator, I again wish to thank you for your assistance in providing to the U.S. telecommunications suppliers opportunities to gain greater access to world markets for our products. In return I want to assure you that Northern Telecom will continue to make the global marketing investments necessary to avail ourselves of the opportunities your actions are helping to create for us. I believe our experience in Japan is indicative of what can be achieved through close cooperation between the U.S. public and private sectors.

Once again, thank you for the opportunity to appear before your subcommittee.

STATEMENT OF THOMAS A. CAMPOBASSO, PRESIDENT, ROCKWELL INTERNATIONAL TRADING CO., PITTSBURGH, PA, ON BEHALF OF ELECTRONIC INDUSTRIES ASSOCIATION, WASHINGTON, DC

Senator DANFORTH. Mr. Campobasso.

Mr. CAMPOBASSO. Good morning, Chairman and Senators.

I'm Tom Campobasso, vice president, corporate international marketing and regional management for Rockwell International, and also serve as President of the Rockwell International Trading Co., and the Rockwell International Overseas Corp.

This morning, I am testifying on behalf of the Information and Telecommunications Technologies Group of the Electronics Industries Association, which is a group that represents some 100 electronic manufacturers, telecommunications manufacturers in this country, and represents about 85 percent of the manufactured products.

The Information and Telecommunications Technologies Group of the Electronic Industries Association strongly supports the enactment of S. 942, the Telecommunications Trade Act of 1985 for the following reasons:

First, the language of S. 942 makes clear that this is a market opening legislation and not a protectionist initiative. This legislation would use access to our market as leverage to secure market opening concessions from our trading partners. I think it's very clear to all of us in industry that the only leverage we have in negotiation is our market. And without that market access, half the miracles that have occurred in some of the developed industrial countries would not have occurred.

Second, this legislation is comprehensive. It establishes a broad array of measures to address the complex trade problems created by the deregulation of our telecommunications market, which started with Carter-phone and was completed with the ATT divestiture.

S. 942 would provide a mandate to the President to negotiate agreements providing for equivalent market opportunities in foreign markets by U.S. exports of telecommunications products and services by a fixed date. In addition, the executive branch would be given a flexible array of remedies which may be applied as leverage for securing such agreements. Most of the required legislative tools for achieving open market access are available today, and they have not been used. We feel that your bill gives credibility to our negotiators and that the bill also creates the sunset dates that are necessary to get negotiations concluded, within the necessary time.

Finally, this legislation recognizes the critical importance of the time element. The U.S. telecommunications equipment industry's market position is rapidly deteriorating. In fact, I think we have already seen much deterioration and eroding of this industry. We simply cannot wait for another 5 years or another round of multilateral trade negotiations which I think as Senator Bentsen put very well this morning, we don't have our homework or an agenda created which tells us what we really want to accomplish, and, of course, what has to be given up to accomplish it. And I think that

agenda should be jointly put together by Government and industry since we are directly affected as well.

We simply cannot wait, for example, for another 5 years to secure more equivalent competitive opportunities abroad. We believe the 2-year timetable, or maybe a lesser timetable as we have recommended in our statement, which I would like to have entered in the record, providing for market access agreement is absolutely necessary with offsetting restrictions if that timetable is not met.

If we don't do this, I don't believe anything will happen. I think we will continue the dialog, and continue negotiations without real results.

While the ITG supports a new round of multilateral trade negotiations, we feel that it would be a serious mistake to defer action on the telecommunications trade legislation in favor of obtaining commitments through the MTN approach. I just think that that will take another 5 plus years, and I don't think we can wait that long. This industry is already in deep trouble.

The ITG endorses S. 942, but would respectfully recommend making certain modifications. No. 1, we would suggest modifying the bill to provide for action by the Executive against any country which refuses to enter into market access commitments or which fails to observe an existing commitment on the same timetable.

In other words, today as the legislation is written it would appear to single out Japan, although that may not be the intent because they are the only country with which we have an agreement although no results have really been achieved.

[Time buzzer sounded at this point.]

If I may just continue to finish three points, Senator. So I think the timetable ought to be consistent, and I think it ought to be shortened from 2 years to 1 year to get those negotiations concluded. I think our agenda is pretty clear as to what we need.

Second, we are concerned that section 101 may have an adverse effect on U.S. subsidiaries of foreign firms. We are looking to open markets; not close investment across borders. I think that we should really not impose restrictions on U.S. subsidiaries of foreign companies, any more than we would want the foreign countries to retaliate against foreign subsidiaries of our U.S. companies. I don't think that achieves what we are looking for, and I don't think it circumvents our attainment of stated objectives either.

Finally, we would support under section 304 the refining of the definition of the term "telecommunications products." We believe it is too broad and includes consumer products. I think this detracts from the thing for which we are really trying to negotiate, the high technology telecommunications industry.

The U.S. telecommunications industry needs the Telecommunications Trade Act of 1985 and strongly urges the Senate Finance Committee to report S. 942 favorably and work toward quick Senate passage. We feel that only Congress is in a position to redress the serious and critical imbalance in market opportunities which currently threaten the competitiveness of U.S. high technology industry.

Thank you.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. Campobasso follows:]

Summary

STATEMENT OF THOMAS A. CAMPOBASSO
ON BEHALF OF THE
OF THE
INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP
OF THE
ELECTRONIC INDUSTRIES ASSOCIATION

-- THE INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP OF THE ELECTRONIC INDUSTRIES ASSOCIATION ("ITG") strongly supports the enactment of S. 942 - The Telecommunications Trade Act of 1985, for the following reasons:

  -- First, the language of S. 942 makes clear that this is market opening legislation, not a protectionist initiative. This legislation would use access to our market as leverage to secure market-opening concessions from our trading partners.

  -- Second, this legislation is comprehensive. It establishes a broad array of measures to address the complex trade problems created by the deregulation of our telecommunications market. S. 942 would provide a mandate to the President to negotiate agreements providing for equivalent market opportunities in foreign markets for U.S. exports of telecommunications products and services by a fixed date. In addition, the executive branch would be given a flexible array of remedies which may be applied as leverage for securing such agreements.

  -- Finally, this legislation recognizes the critical importance of the time element. The U.S. telecommunications equipment industry's market position is rapidly deteriorating. We simply cannot wait, for example, for another five years to secure more equivalent competitive opportunities abroad. We believe the two year timetable under S. 942 providing for market access agreements, or the application of offsetting restrictions, is not only essential, but will prove considerably more effective than an open-ended negotiating mandate.

-- While the ITG supports a new round of Multilateral Trade Negotiations (MTN), we feel that it would be a serious mistake to defer action on telecommunications trade legislation in favor of obtaining commitments through the MTN approach. An MTN Round would take too long and the prospects for success are too uncertain.

-- The ITG endorses S. 942 but would recommend making the following modifications:

(1) We suggest modifying the bill to provide for action by the Executive against any country which refuses to enter into a market access commitment, or which fails to observe an existing commitment, on the same timetable. This should be on an accelerated but nondiscriminatory schedule.

The ITG opposes singling out Japan for special sanction -- and for this reason we do not support S. 728. The ITG has directed substantial criticism toward Japan because our bilateral telecommunications trade deficit with Japan is larger than that with any other country. However, Japan has displayed a willingness to discuss market access problems, and to enter into commitments, that has not universally characterized our dealings with other trading partners.

(2) We are concerned that Section 101(b)(1)(A) may have an adverse effect on U.S. subsidiaries of foreign firms and work as a disincentive to the free flow of investment by foreign firms in this country.

(3) Finally, we would support under Section 304 a refining of the definition of the term "telecommunication product" to exclude non-telecommunications consumer electronics products.

-- The U.S. telecommunications industry needs the Telecommunications Trade Act of 1985 and strongly urges the Senate Finance Committee to report S. 942 favorably and work towards quick Senate passage.

We feel that only the Congress is in a position to redress the serious and critical imbalance in market opportunities which currently threatens the competitiveness of the U.S. high technology industries.

Mr. Chairman, I am Thomas A. Campobasso, Vice President of Corporate International Marketing and Regional Management of Rockwell International Corporation. I also serve as President of the Rockwell International Trading Company and of Rockwell International Overseas Corporation. In 1980, I served as Chairman of the Board of Directors of the Electronic Industries Association (EIA) and I am here today on behalf of the Information and Telecommunications Technologies Group (ITG) of the EIA, which represents 100 U.S. manufacturers of telecommunications equipment. I appreciate the opportunity to testify before you today.

Mr. Chairman, last year you demonstrated an early awareness of this problem, and our member companies are indebted to you for the leadership you have shown in seeking comprehensive legislation aimed at the rather unique trade problem which we confront in this sector. The U.S. telecommunications equipment industry is highly competitive and a world leader technologically, yet we ran a negative trade balance in this sector last year of $608 million -- an imbalance which is likely to grow substantially this year. This imbalance is not a reflection of the competitiveness of our industry, but of the fact that our market is open, while those of our principal foreign competitors are wholly or partially closed to our products.

As you know the telecommunications trade problem has become the subject of widespread Congressional concern this year, and appropriately so. We supported the legislation which you introduced in the last session of Congress, and we likewise

endorse the legislation you have introduced this year, the Telecommunications Trade Act of 1985. I would like to outline briefly the reasons why the ITG supports this bill.

First, the language of the bill makes clear that this is market opening legislation, not a protectionist initiative which we could not support. We seek to open foreign markets, not close our own. This legislation would use access to our market as leverage to secure market-opening concessions from our trading partners. Such an approach is not only consistent with the ITG's philosophy, but with this country's approach to trade negotiations since the end of World War II.

Second, this legislation is comprehensive. It recognizes that a complex set of trade problems have been created by the deregulation of our telecommunications market, and it establishes a broad array of measures to address those problems. These include, most importantly, a mandate to the President to negotiate agreements providing for substantially equivalent market opportunities for our companies by a fixed date. The executive branch is given a flexible array of remedies which may be applied as leverage for securing such agreements. In addition, the U.S. Trade Representative will be required to monitor these agreements regularly to ensure compliance, and is given direct authority to take the appropriate action where U.S. rights under such agreements are not being respected. These provisions will substantially enhance the market opportunities available to U.S. companies abroad.

Finally, this legislation recognizes the critical importance of the time element which our industry confronts today. The U.S. telecommunications equipment industry's market position is rapidly deteriorating in the current environment. We simply cannot wait, for example, for another five years to secure more equivalent competitive opportunities abroad. By that time, a significant portion of the U.S. industry will have eroded. The current bill requires that either an open access agreement must be negotiated, or offsetting restrictions applied, within two years of enactment. We believe that this sort of time limitation is not only essential, but will prove considerably more effective than an open-ended negotiating mandate. In fact, we propose that the timetable for concluding trade agreements be accelerated from 18 months to 6 months.

As this legislation is considered by the Congress, the question is likely to be raised as to how it may affect the prospective new round of Multilateral Trade Negotiations (MTN). The ITG supports a new MTN round as well as this legislation, and we believe that the two are not inconsistent. If for no other reason than the time element which I have mentioned, we feel that it would be a serious mistake to defer telecommunications trade legislation in the hopes that foreign commitments to open market access can be negotiated multilaterally. This would take too long and the prospects for success are too uncertain, particularly given the fact that we have already given away our principal source of leverage -- access to our market. I note that during the last MTN round, most European countries refused

to include telecommunications procurement by their PTTs in the GATT Agreement on Government Procurement, and even now, will not accede to this Agreement.

On the other hand, if this legislation is enacted, and the President is able to secure a series of bilateral commitments from our trading partners to open their telecommunications markets, the groundwork will have been laid for a broad multilateral agreement covering telecommunications procurement -- an important aspect of which would be the inclusion of foreign government telecommunications monopolies within the coverage of the GATT Agreement on Government Procurement. Such a multilateral agreement should be an ultimate U.S. objective -- but not a pretext for inaction in a sector where a gross imbalance in competitive opportunities currently exists.

For these reasons, the ITG strongly supports the enactment of S. 942. There are, however, certain aspects of the bill which concern our members and which I would like to bring to your attention today.

First, as we read the bill, upon conclusion of the six-months investigation by the U.S. Trade Representative, the imposition of sanctions would be mandated against countries which have already entered into sectoral market agreements with the U.S. and which are found to be in noncompliance with the agreement. At present, only one country, Japan, has entered into a bilateral telecommunications agreement with the U.S., and the bill, as currently written, would thus seem to provide for the

possible imposition of restrictions against Japan prior to any other country.

The ITG opposes singling out Japan for any sort of special sanction -- it is for this reason that we do not support S. 728, the other legislation which your subcommittee is considering today. The ITG has directed substantial attention and criticism toward Japan because it has not done enough to open its markets to our products -- and as a result, we ran a bilateral trade deficit with Japan in 1984 of $1.89 billion. At the same time, Japan has displayed a willingness to discuss market access problems, and to enter into commitments, that has not universally characterized our dealings with other trading partners in this sector. We do not wish to penalize Japan for making such commitments, particularly when other countries -- most notably the EEC nations -- have been considerably less forthcoming in their willingness to entertain commitments to a more open world market.

Further, we fear that other countries that have been unwilling to enter into negotiations leading toward equal market access will see the bill as another reason not to sit down at the table with us. Access to the market of those other countries is extremely important and negotiations -- on a bilateral or multilateral basis -- are the necessary threshold to the marketplace. We should be careful not to build into our own trade structure disencentives to negotiate.

We suggest that the bill might be modified to provide for action by the Executive against any country which refuses to

enter into a market access commitment, or which fails to observe an existing commitment, on the same timetable. This should be an accelerated but non-discriminatory schedule; sanctions might be made applicable, where appropriate, within six months of the date of completion of the USTR investigations -- in effect lengthening the time for possible action against Japan but shortening it for other nations from 18 months to six months.

A second area of concern in the legislation is the prospect that it may -- directly or indirectly -- have an adverse effect on subsidiaries which foreign producers have established in the United States. Specifically, Section 101(b)(1)(A) provides that in conducting his investigation, USTR should take into account economic benefits

> accruing to firms in each foreign country and to their United States subsidiaries from the open access to the United States telecommunication market that has resulted from liberalization and restructuring of such market.

This language suggests that the sales made by a U.S. subsidiary ot a foreign company might be a factor weighing against a foreign country in USTR's investigation. The ITG has for many years opposed foreign measures which tend to restrict the free flow of investment across national borders, and our members are troubled by any proposal which might arguably work as a disincentive to such patterns of investment by foreign firms in this country. Accordingly we suggest deletion of the words "and to their United States subsidiaries" from this section of the bill. As a general matter we would like to make clear that we do

not support the imposition of sanctions against U.S. subsidiaries of foreign firms.

Finally, we note that Section 304 of the bill defines the term "telecommunication product" by designating the TSUS numbers embraced by that term. These TSUS numbers currently include some consumer electronics products such as AM-FM radios. We support a refining of the definition of the term "telecommunication product" to exclude non-telecommunications consumer electronics products. The ITG's concern is to secure access to foreign telecommunications markets, and it would prefer to avoid coverage of non-telecommunications products by the bill.

I would like to stress that we offer these suggestions as supporters of the basic legislative package which has been presented in S.942. Our industry needs this legislation and strongly supports its enactment. At present only the Congress is in a position to redress the serious and potentially critical imbalance in market opportunities which currently exists in this sector, and this legislation is therefore extremely important. We look forward to working with you this year in devising solutions to this problems.

STATEMENT OF BLAINE E. DAVIS, VICE PRESIDENT, STRATEGIC, BUSINESS AND MARKET PLANNING, AT&T TECHNOLOGIES, ON BEHALF OF THE COMPUTER AND BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION, WASHINGTON, DC

Senator DANFORTH. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

My name is Blaine Davis, and I'm vice president, strategic, business and market planning at AT&T. I'm delighted to appear before the subcommittee today on behalf of CBEMA, the Computer and Business Equipment Manufacturers Association.

In the interest of time, I would like to summarize my remarks. Earlier this week we provided the subcommittee staff with a copy of CBEMA's statement, and would appreciate having it included in the record.

Senator DANFORTH. Fine. All statements will be automatically included in the record in full so that the witnesses don't even have to ask for that. If you will just summarize your testimony.

Mr. DAVIS. CBEMA has 38 member companies who employ 1.6 million people worldwide. In 1984, CBEMA members had combined sales of $135 billion. Approximately $35 billion is sales in telecommunications products. CBEMA has, since its inception, endorsed free trade in the world market for goods and services. Conversely, we have opposed protectionism both in the United States and abroad. We have no interest whatsoever in closing our borders to products made in other countries. Protectionist actions would, we are convinced, lead to retaliation among our trading partners, and that retaliation would seriously reduce the sales of U.S. companies in international markets.

Our free trade principles apply to all areas, including telecommunications. But telecommunications does present us with a unique problem. It has been the object of long-standing worldwide Government control and ownership; thus, it has not been included in the regular ongoing multilateral, multiproduct trade negotiations that we have long supported.

We encounter restrictive standards, certification and registration systems. We find national procurement conducted largely by government entities that do not allow foreign competition. We face artificial imposition of restrictions in the use of PTT transmission facilities. In fact, the international telecommunications market is among the most highly restricted in the entire world.

But the telecommunications restrictions are implemented in ways unique to each country with which we trade. Thus, no single policy, no one remedy, no procedure, can address all of these restrictions.

Our interest in the objectives of the Telecommunications Trade Act of 1984 led CBEMA to join a multi-industry working group to address telecommunications trade. One of the group's products was a set of principles that focused on attainable negotiated solutions and encouraged targeted actions to achieve the balance of opportunity if negotiations fail.

CBEMA has endorsed these principles as a template for judging trade legislation in this area. Let me review them with you.

First, the President should have explicit authority to negotiate multilateral and bilateral agreements to eliminate barriers in telecommunications trade. Second, there should be a reasonable period for negotiations and an attainable set of objectives tailored to individual countries. If United States producers cannot gain equivalent competitive opportunities in foreign markets, the administration should act to achieve a trade balance.

The third principle involves monitoring of existing or newly negotiated trade agreements. If a country agrees to open telecommunications markets, but then fails to do so, the administration should again take action to achieve a balance of competitive opportunities. An important test in monitoring the success of trade agreements should be increases in sales commensurate with the product's international competitiveness.

And S. 942 generally adheres to these principles. It focuses on market access. And unlike many proposals that single out only one country, this proposal requires telecommunications negotiations with all major trading partners.

While S. 942 generally conforms to our principles, we have some suggestions to help its effectiveness. First, the term "substantially equivalent competitive opportunities in telecommunications," needs definition. We do not think it should mean that we require our trading partners to have a mirror image of the U.S. telecommunications market.

A second suggestion is that S. 942 include some flexibility in tariff imposition. We agree with the general two-track approach. However, flexibility in the implementation of the tariff option under both tracks should be considered.

For instance, let's say that the United States and Canada entered into a negotiation under the bill but that Canada refused to lower its onerous 17.8 tariff on U.S. telecommunications imports. Instead of being able to raise our tariff to a commensurate level, the President now must implement a 35 percent tariff. Instead of competitive opportunities, the scale becomes tilted in the other direction, which may contradict the fundamental objectives of the bill.

A fair concern is the breadth of the products covered in the bill. AM/FM radios, console TVs, stereos, clock radios, car radios, telephone answering machines and CBs are not relevant to the objective of S. 942 and, therefore, we suggest they be deleted.

We also suggest that Congress be involved when actions to achieve a balance of opportunities are called for.

CBEMA does not normally welcome bilateral sectorial negotiations. Multilateral, multiproduct trade rounds should lead to far better results in the long-run. But we agree with those on this subcommittee, including the chairman, who have made the point that the United States must carefully prepare before we launch into multinational trade negotiations. We feel the negotiation process called for in this bill can serve as a useful preparation for a new trade round.

On behalf of CBEMA, I want to end on a note of personal appreciation to Senators Danforth and Bentsen. CBEMA has worked closely with you and your staffs over the years to insure fair and equitable treatment for U.S. products in the international marketplace. Your influence in the Trade and Tariff Act of 1984 was cru-

cial in making that a positive step for U.S. exports. S. 942 is a tribute to your continued leadership in this sensitive and difficult area. We look forward to working with you on this and future trade legislation.

[The prepared statement of Mr. Davis follows:]

CBEMA

TESTIMONY OF THE

COMPUTER AND BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

SENATE COMMITTEE ON FINANCE

May 3, 1985

Computer and Business Equipment Manufacturers Association

311 First Street, N.W. • Washington, D.C. 20001 • 202-737-8888

My name is Blaine E. Davis and I am Vice President, Strategic, Business and Market Planning at AT&T. I am testifying today on behalf of the Computer and Business Equipment Manufacturers Association (CBEMA). As you may know, CBEMA is the trade association of producers of information processing, business and telecommunications products, supplies and services. Its 38 member companies had combined sales of more than $135 billion in 1984, about 35 billion of which is from telecommunications. They employ more than 1.6 million people worldwide.

We are very grateful for the opportunity to testify on the important issues facing us in international telecommunications trade. We are most appreciative of the efforts of Senators Danforth and Bentsen for their very thoughtful proposal and for their efforts on behalf of the national economy.

CBEMA has, since its inception, endorsed free trade in the world market for goods and services. Conversely, we have opposed protectionism both in the U.S. and abroad. We have no interest whatsoever in closing our borders to products made in other countries. Protectionist actions would, we are convinced, lead to retaliation among our trading partners. And that retaliation could seriously reduce the sales of U.S. companies in international markets.

Protectionism would also, we fear, fire a new inflationary spiral by raising consumer prices.

Our free trade principle applies to all areas, including telecommunications. But telecommunications does present us with a unique problem. It has been the object of long-standing world-wide government control and ownership. Thus it has not been included in the regular, ongoing multilateral, multi-product trade negotiations that we have long supported.

And we have reason to be encouraged by recent bilateral negotiations in this area. Our telecommunications negotiations with Japan, for instance, have made progress. Of course, we have leverage there. And the agreements must lead to results. But the negotiations demonstrate that bilateralism can work.

Telecommunications trade is an example of a double standard in trading. Our telecommunications markets are open to foreign telephones, foreign switching equipment, foreign PBXs. And we support that open market. But when we try to sell U.S. telecommunications equipment and services in other countries, we are often blocked.

- We encounter restrictive standards, certification and registration systems.

- We find national procurement conducted largely by government entities that do not allow foreign competition. There is

overreliance on exemptions from the GATT procurement code or an avoidance of that code altogether.

- We face an artificial imposition of restrictions on the use of PTT transmission facilities.

In fact, the international telecommunications market is among the most highly restricted in the entire world. Telecommunications seems uniquely outside the general world trading system.

But the telecommunications restrictions are implemented in ways unique to each country with which we trade. Thus no one policy, no one procedure can address all these restrictions. The single remedy proposed in last year's telecommunications trade bill (S. 2618) did not provide the flexibility needed to respond to these complexities.

Our interest in the objectives of the Telecommunications Trade Act of 1984 led CBEMA to join a multi-industry working group to address telecommunications trade. One of the group's products was a set of principles that would authorize attainable, negotiated solutions and encourage targeted actions to achieve the balance of opportunity if negotiations fail. CBEMA has endorsed these principles as a template for judging trade legislation in this area. Let me review them with you:

- First, the President should have explicit authority to negotiate multilateral and bilateral agreements to eliminate barriers in telecommunications trade.

- Second, there should be a reasonable period for negotiations and an attainable set of objectives tailored to individual countries. If U.S. producers cannot gain equivalent competitive opportunities in foreign countries, the Administration should act to achieve the balance. The tools used should be carefully-honed, surgical instruments to be applied with care and forethought to individual situations in the most effective, least disruptive manner.

- The third principle involves monitoring of existing and newly-negotiated trade agreements. If a country agrees to open telecommunications markets but then fails to do so, the Administration should again take action to achieve the balance of competitive opportunities. An important test in monitoring the success of trade agreements should be increases in sales commensurate with the product's international competitiveness.

S. 942 generally adheres to those principles. It focuses on market access. And unlike many proposals that single out only one country, this proposal requires telecommunications negotiations with all major trading partners. Only after thorough negotiations are flexible, targeted remedies instituted.

While S. 942 generally conforms to our principles, we have some suggestions to help enhance its effectiveness:

- First, the term "substantially equivalent competitive opportunities" in telecommunications needs definition. We do not think it should mean that we require our trading partners to have a mirror image of U.S. telecommunications market structure.

  For example, in the U.S. we have inter-city telecommunications competition. But U.S. companies could have reasonable market access in a foreign country without that country's having such competition. The President should be authorized to define "substantially equivalent competitive opportunity" for each country, balancing the selection of negotiating objectives, the importance of the market, the incentives available to be offered, the value of access to the U.S. market and the availability of effective actions if negotiations fail.

- A second suggestion is that S. 942 include more flexibility in tariff imposition. We agree with the general two-track approach: one that deals with negotiations and a different one that deals with violations of existing agreements. But the tariff option under both tracks is inflexible.

  For instance, let's say that the U.S. and Canada entered into a negotiation under the bill, but that Canada refused to lower its present 17.8% tariff on U.S. telecommunications imports. Instead of being able to raise our tariff to a commensurate level, the President must implement a 35% tariff--the Smoot-Hawley rate. That's not achieving a balance of competitive opportunity.

Therefore, we believe there should be flexibility in the implementation of tariff remedies.

- We have a third concern with the breadth of products covered by the bill. It seems probable that some products have been included inadvertently: AM-FM radios, console TV stereos, clock radios, those multi-system units popularly known as "boom boxes," car radios, telephone answering machines and CBs. They are not relevant to the objectives of S. 942.

- We also suggest that Congress be involved when actions to achieve a balance of opportunity are called for. We agree that mandated responses are necessary for negotiating purposes. But circumstances might change; the national interest might change. Congressional approval of the measures--using the same fast-track approach demanded for approving the results of negotiations--would increase the confidence of those who fear that automatic responses devised today would not reflect the national interest in the future.

CBEMA does not normally welcome bilateral, sectoral negotiations. Multilateral, multi-product trade rounds should lead to far better results in the long run. But we agree with those on this subcommittee, including the Chairman, who have made the point that the U.S. must carefully prepare before we launch new multilateral trade negotiations. Since telecommunications underlies virtually all industries, and since the tools and approaches included in this bill

are in fact transportable to other types of negotiation, we feel the negotiation process called for in this bill can serve as useful preparation for a new trade round.

On behalf of CBEMA, I want to end on a note of personal appreciation to Senators Danforth and Bentsen. CBEMA has worked closely with you and your staffs over the years to ensure fair and equitable treatment for U.S. products in the international marketplace. Your influence in the Trade and Tariff Act of 1984 was crucial in making that a positive step for U.S. exports. S. 942 is a tribute to your continued leadership in this sensitive and difficult area. We look forward to working with you on this and future trade legislation.

Senator DANFORTH. Gentlemen, thank you very much. I'm going to ask you one question with several parts, and just ask you to respond to it however you wish.

Let me give you these thoughts to respond to.

First, the goal of telecommunications trade policy should be to open international markets; not to close our own markets. That if we have a reasonable opportunity to compete on an international basis, the American telecommunications industry will do quite well. It's a wonderful opportunity for us. Therefore, our policy should be to open markets; not to close them.

Second, while much attention has been focused on Japan, particularly with telecommunications trade negotiations ongoing and with one agreement having been completed in 1980, the concern for telecommunications trade should go beyond Japan. That we should also be interested in telecommunications trade with Europe, with Canada, with Latin America.

Third, the standard of substantially equivalent competitive opportunities is an appropriate standard for us to pursue. We cannot expect with any given country dollar-for-dollar, equality in trade—we cannot expect with any given country that their regulatory scheme or licensing scheme should be identical to what we find in the United States, but we can expect substantially equivalent opportunity to be able to enter other markets.

And, finally, and I guess most importantly for this legislation, access to the United States market is the only effective leverage to gain access to other markets. That is to say that if we take the position that our market is going to be open perpetually regardless of the trade practices of other countries, then there is no real leverage in any negotiations to open up the markets of Japan or Europe or Canada or anywhere else.

So I would like any comments you might have on that range of concerns.

Mr. Campobasso.

Mr. CAMPOBASSO. Thank you. Let me address all four of the issues. First of all, the goal of the telecommunications policy to open and not close markets, I couldn't agree more. I feel that if the United States industry cannot compete on a fair and fairly level playing field, then we have really no complaint because that's our method of operating in a free and fair marketplace.

The second thing is that, yes, Japan has the largest surplus with us, and Japan has not opened its market, despite the negotiations that have taken place. There have been no changes in the market. There have been a few agreements. We sell some things into Japan as well, but only where they will allow us to come in and not on a free access basis as in the United States market.

But I do think the telecommunications problem is global. It's not just Japan. It is Canada, where we have a difference in tariffs, and certain other problems such as discriminatory purchasing with the Bell Canada and Northern Telecom, the company of which they own 52 percent. We have problems with the EEC, throughout Europe. And a lot of these countries are using the government procurement code as a form of shield and I don't think the GATT was ever intended to protect grown, mature, strong industries. It was meant, if anything, for the developing industries to be protected.

And, third, access to the U.S. market definitely, as I mentioned in my own opening statement, is the only leverage we have. It must be used judiciously, effectively and in the spirit of fair trade. But it's got to be two ways.

Senator DANFORTH. Thank you, sir.

Mr. Davis.

Mr. DAVIS. Yes; CBEMA cannot support more strongly the goal of making sure that the legislation is to open markets and not close them. I think the current focus is on Japan, but Japan is certainly not unique in this business at all. Most countries do not use open competitive international tender for telecommunications equipment, and that is one test—to get equal access to the telecommunications market.

You need to look at Japan in particular and other countries in general. There are three general classes of telecommunications equipment. One is the network systems equipment that is switches and transmission systems, which are typically Government procurement activities, and the Government can decide on how it wants to do that.

The class that has the most emphasis today is end user equipment or inter connect equipment—PBX's, office automation devices, computers—that requires distribution channels to participate and, therefore, are subject to cultural influence. Unfortunately widespread cultural differences are a form of sales resistance that the Government can't get at directly, and they can play an influence.

The third class of telecommunications equipment is operating support systems and other software devices, that have a different market.

I think in terms of focusing on the standard equivalent competitive opportunity, we have to distinguish between those three classes of telecommunications products because the markets within the countries are different. But for the No. 1 item, the markets are typically the same. It is Government procurement, which is susceptible to the pressures on the Government itself. And that pressure certainly can be used most effectively with using the leverage of access to the U.S. market.

But again, I want to caution that our objective is to open markets and not close them.

Senator DANFORTH. Mr. Fitzgerald.

Mr. FITZGERALD. Well, Senator, I would say yes to all of the four points. I would, however, like to clear up just one piece of misinformation that was stated here. Northern Telecom is not 52 percent owned by Bell Canada. Bell Canada is owned by a company called BCE, Inc., which also owns 47 percent of Trans-Canada Pipelines and 52 percent of Northern Telecom. We sold $600 million worth of equipment to Bell Canada last year, which was 20 percent of our output. AT&T's captive supplier sold 35 percent of its output to AT&T for $4 billion. And GTE's captive supplier sold a billion dollars worth of equipment to itself for 75 percent of its output.

Senator DANFORTH. Thank you, sir.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Gentlemen, first of all, one quick question. You all agree that the restrictions against U.S. sales of telecommunications equipment are universal. In other words, in the ECC, in Japan and elsewhere. Is that true? It's not restricted to Japan?

Mr. CAMPOBASSO. Yes.

Senator CHAFEE. Now let's get back to Japan, if we could. Mr. Fitzgerald, in your testimony, first of all, on page 7 you indicate that the major manufacturing, foreign manufacturers, have erected barriers to U.S. imports. Their home countries erect barriers to imports of U.S. telecommunications equipment. You say that on the bottom of page 7. But then you discuss the effect of the high value of the dollar. On page 10, you say: "We would have difficulty competing." In other words, if I take your statement at face value, it's due to the U.S. dollar. Even if we had access, we couldn't compete. Is that what you are saying?

Mr. FITZGERALD. No, sir; I meant to say that we need both. We need the relief that Senator Danforth's bill is intended to provide, and we need a more—and we need a less strong U.S. dollar also.

Senator CHAFEE. I think everyone on this committee will agree with you on the problems of the U.S. dollar.

Now, finally, you then go on to discuss Japan. And you say on page 12: "Japan has granted numerous concessions." And on page 18 you conclude by saying: "It is, therefore, with considerable satisfaction I'm able to report that Northern Telecom's experience with NTT in Japan has become ever more similar to our experience with AT&T and the Bell operating companies in the U.S."

What is your view toward Japan? Are things OK? Can we sell in Japan under the present circumstances, setting aside the value of the dollar?

Mr. FITZGERALD. Well, we are setting aside the value of the dollar in this current negotiation with Japan in that we are quoting in yen, and we are hoping that by 1986 and 1987 the yen is going to strengthen against the dollar, and, therefore, the prices we have quoted will be better prices.

Senator CHAFEE. Now I would like to set that aside, if I could, and solely deal with what we might call the nontariff trade barriers. In other words, is our equipment being restricted in Japanese markets or is that just a myth that those of us on the committee think. Is our equipment being restricted or is it just due to the fact that, as you say, our sales techniques aren't good, we don't have enough people that speak Japanese? And you run over in your testimony a series of our capacity to recruit and change Japanese speaking telecommunications engineers and so forth. Is that the problem or are they keeping our equipment out?

Mr. FITZGERALD. Our experience is, sir, that if we make the required marketing investment in Japan that we are being able to obtain orders.

Senator CHAFEE. In other words, a level playing field does exist in our relationships, trading relationships, with Japan?

Mr. FITZGERALD. A lumpy playing field, sir.

Senator CHAFEE. All right. Lumpy, but nonetheless you have no complaints. Is that it?

Mr. FITZGERALD. Well, I don't know whether there is a market even for the United States or that I don't have a complaint, sir. All

I would say is that our experience is that if we invest sufficiently in the marketplace and because of our advanced technological position on digital switching, we have been able to get orders in Japan. And I can't extrapolate that beyond my own personal experience.

Senator CHAFEE. All right.

What do you say to that, Mr. Davis? In other words, why are we here? Why would we endorse this legislation if as far as Japan goes everything is OK. What do you say to that, Mr. Davis?

Mr. DAVIS. Well, I think from CBEMA's point of view we are very encouraged in what is happening in Japan in terms of some of the concessions that they have made. However, I think we are at the beginning of the process and not at the end.

One of the things that is missing is a kind of an objectively viewed measure of merit in terms of the market being opened. That measure of merit should be in terms of increased sales. I think in the telecommunications area we need, again, to look at the division in three ways: in terms of switching systems, in transmission systems which NTT has at its own discretion—I don't think that the signs are very encouraging at all. They do not use open international competitive tender. Until they do, then I think that we have to look askance at it.

In terms of the interconnect market—office automation products, PBX's, computers and systems like that—I think there the distribution channels to go to the end user comes into play. And I think taking restrictions away from those and making the certification and the registration of those products shows signs of being helpful. And what we need to do is push harder on that market.

In terms of operating support systems and software, I think protection in intellectual property is the key here, and until people feel comfortable about selling those products in Japan, we will have a difficulty doing it there.

So it's a mixed bag. The thing that we focus on is on the end user part, but I think we need to put a lot more focus on the switching, transmission, the Government procurement part where actions can be taken, and I don't believe have been taken yet.

Senator CHAFEE. Well, my time is up, Mr. Chairman. I will come back to Mr. Campobasso when we go around the next round. Thank you.

Senator DANFORTH. All right. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Davis, I note in your testimony here that you are talking about the fact that free trade principles apply to—should apply to all areas, including telecommunications, but that telecommunications presents us with a unique problem. That's because it has been the object of long-standing Government control in these various countries, and, therefore, it has not been included in the regular, ongoing multilateral, multiproduct trade negotiations.

It seems to me that is a unique problem, but also a unique opportunity because you can have a massive break-through by Government action if they decide to do it. Now I watched with a great deal of interest Prime Minister Nakasone and the television public relations job that was done as he tried to sell Australian wines and French perfume and British ties and American tennis rackets. And

I thought it was quite amusing. It obviously didn't accomplish anything except PR.

But here is a place where you can have a massive break-through, substantial change. I agreed as a Democrat to work on this with the chairman was because I thought here was a bipartisan effort that could be made where we could have a substantial breakthrough happen. But I'm also concerned about having a new trade round. I feel very strongly we ought to have, but I get the feeling we are not prepared for it, that not enough has been done in that regard.

Now I know that probably some of you, maybe all of you, belong to groups represented on advisory committees established under the Trade Act of 1974. Now can any of you tell if you belong to any of those groups? What discussions have occurred of the world telecommunications problems in those advisory committees? What has the administration asked of you in that regard in preparation for a new trade round? Would you let me know what has been done there?

Mr. McDONNELL. Senator, I'm Jack McDonnell with the Electronic Industry's Association and I do serve on ISAC 5 which is the Industrial Sector Advisory Committee for electronics, and we have a telecommunications subgroup. And we had our first meeting on this topic last Tuesday where the administration did come to us.

Senator BENTSEN. Last Tuesday?

Mr. McDONNELL. Last Tuesday. That's correct, sir. And we have another one this coming Tuesday of the full—not just the telecommunications subgroup, but the entire committee. And there was considerable discussion about the phase two negotiations in Japan and what the industry expected from those negotiations, as well as what we should put on the agenda for the EEC.

Senator BENTSEN. Have they asked you for your advice and counsel as to your position on this trade bill and to advise them in that regard?

Mr. McDONNELL. Yes, sir, they did. There were several members of the Administration there.

Senator BENTSEN. This was last Tuesday?

Mr. McDONNELL. This was last Tuesday.

And I would say that with very, very few exceptions there was support from the industry for the legislation. We asked the administration to try to get their act together to take a position on the bill this time since they hadn't taken any position on similar legislation last year; and said that they were sending out the wrong signals, and they were strengthening the hands of the opposition in terms of the negotiations by not taking a positive, and hopefully a favorable position on the legislation.

Senator BENTSEN. Well, I'm delighted to hear your contribution to that. And, obviously, I hope that the administration will finally come around to a position of a decision in support of this particular piece of legislation.

Do you think the President has sufficient authority under the current law to deal with the telecommunications trade problem?

Mr. CAMPOBASSO. I do. I think the current law does allow sufficient remedies to the President. I just don't think they've been used.

Senator BENTSEN. You know, I think it does, too. So why this? Well, I think this is because we pushed them, and I think that's what has to be done. I think it gives it impetus.

Mr. Davis, can AT&T relocate its facilities producing telecommunications equipment abroad? And if so, approximately what amount of plant and equipment investment does AT&T anticipate in the next 10 years? How much of it can be located elsewhere than in the United States?

Mr. DAVIS. Senator, I'm here today representing CBEMA, and I don't feel that it's appropriate for me to represent AT&T. And I don't know the answer to your question specifically, but I certainly can get a reply from our office to you.

Senator BENTSEN. That would be helpful to us, because we want to understand what we are facing ahead. We had one witness of a very major corporation testifying before us and said that they now have one-third of their production overseas. He said that in the next five years they expected to have 50 percent of it overseas. And in the next 10 years they expected to have two-thirds of it overseas, and shipping the product back to us. And that has to be a concern to us.

Thank you very much, Mr. Chairman.

[The information from Mr. Davis follows:]

A major objective of AT&T is to increase its international business while maintaining a competitive position in the domestic market. AT&T is investing substantial resources domestically to ensure the development and deployment of the most advanced and competitive manufacturing capabilities. At the same time, the company is committed to providing whatever design or manufacturing resources are required to support its international efforts. Competitively serving foreign markets often requires investing offshore. However, investments required to gain access to foreign markets vary from country to country and do not necessarily translate into relocating or replacing domestic capacity. There is no set formula that dictates exactly what percentage of AT&T's future investments might be made overseas. From the point of view of a manufacturing company, AT&T compares each opportunity to improve its competitive position internationally with the best job it can do in the United States and invests its resources accordingly.

Senator DANFORTH. Thank you, Senator Bentsen.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

I would like to follow up on that last point. Recently, I've spoken with groups of major U.S. manufacturers, who've made the same point to me that the Senator from Texas just made. One group I met with a couple of weeks ago said that almost all of their new investments would be offshore unless the value of the dollar changes.

And, obviously, that's something that we can't tolerate in this country. It has to be changed.

I would like to go back a little bit and ask you about the AT&T divestiture period. I wonder whether anyone in the telecommunications industry considered how the breakup of AT&T would affect U.S. telecommunications companies with respect to world markets. That is, did we only look within the confines of the United States borders, or did we look at Japanese, Canadian and European telecommunications policies—either before Judge Green, the Justice Department, or before congressional committees?

Mr. CAMPOBASSO. On behalf of EIA, I don't think that was ever really raised.

Senator BAUCUS. Never raised?

Mr. CAMPOBASSO. In any depth. It may have been raised. It should have been raised in discussions but never really written as a formal position or a concern.

Senator BAUCUS. Why was that? Was it just that we didn't have our eyes open or was it that we didn't have the necessary mechanisms?

Mr. CAMPOBASSO. I think the problem was it just was never considered. This whole subject of a trade deficit and our falling behind is something new to a lot of us in the American industry and it's something we now have to reckon with and something where there has to be some very radical changes made in our perception. It's just a new phenomenon for us and it's something we have to look at.

We are not saying to become protectionist or close doors, but we certainly feel that something has got to be done if we are to continue in an open trading system. I guess it never came up because it just was never fully considered as to what would happen, for example, that we would have all of these companies or all of these foreign manufacturers coming in here, at will, in our open market or that we would not be accorded equal access to their markets.

Senator BAUCUS. Could we have foreseen this or was it impossible to foresee?

Mr. CAMPOBASSO. It's pretty hard to say. It could have been predicted possibly, but it would have had to have been examined in regards to past performance in many other trade areas—the automotive area or something like that possibly—for comparisons to be made.

Senator BAUCUS. Let's assume that it could have been foreseen. Do we have the mechanisms to be able to deal with it?

Mr. CAMPOBASSO. I don't know.

Mr. FITZGERALD. Senator Baucus, I would just volunteer the statement that I'm not sure that the divestiture of AT&T is the date you are really looking for. I think the majority of the importation from overseas is for terminal equipment that is connectable to the network, and that is really attributable to the Carterphone decision that anticipated the AT&T divestiture by many, many years.

Senator BAUCUS. I guess that is probably right. I guess the major point I'm trying to make is that from now on major U.S. policy, economic policy, has to pay much more attention to trade ramifications. For example, we are about to consider comprehensive tax reform. The Treasury Department is going to be coming up with its own recommendations in a week or two. The question is: How will that affect trade? How will that affect the distribution of income within the United States? How will that affect so-called neutrality, whatever that means, within the United States? But the key question is how will tax reform affect trade? That is, how will the proposed changes affect U.S. industry vis-a-vis tax code effects on other companies in other countries?

Mr. FITZGERALD. I think it's difficult to isolate out just an event. There was regulatory change. There was the divestiture. And there also was severe technological change. And I think the sum of the

three is what is causing the phenomena that you are witnessing. And I don't think you can lay it off to any one of those three individually.

Senator BAUCUS. Thank you very much.

Mr. CAMPOBASSO. If I might comment to the Senator's last statement. I think that any legislation has to be looked at as regards to splatter or side effects. For example, even technology transfer legislation, which is incorporated in some of the other pending legislation, could have a serious affect on trade, while it supposedly protects national security or things of that nature. And I think those have to be put in some form of balance by looking at what one action does to another.

Senator BAUCUS. I trust that from now on you will make those views known to us, too.

Mr. CAMPOBASSO. Personally to you, Senator, or anybody else on the list.

Senator BAUCUS. Thank you very much.

Senator DANFORTH. There is a vote now on the floor of the Senate. Senator Grassley, why don't you proceed with your questions and some of us can go and vote now and come back. Hopefully, there won't be any delay in the proceeding.

Senator GRASSLEY. Thank you, Mr. Chairman. And that's perfectly satisfactory with my timetable as well.

I have in front of me the staff report on our trade imbalances in this area of discussion this morning. And you, obviously, know that we have in the last 2 years imported $1.8 billion versus exporting $777 million. My question is why can't we sell these products domestically considering the increased market share being taken by foreign competition? Is it possible to delineate, and if it is, then I would like to have you tell me to what extent the increased market share comes from what might be generally recognized as superior technology from abroad as opposed to just our inability to compete pricewise.

And I would address it to any or all of you.

Mr. FITZGERALD. Well, I don't have the precise figures, Mr. Grassley. But, again, going back to what I said before, I think you will find that most of the trade imbalance comes in terminal equipment for connection to the network rather than systems imbedded in the network itself. And as such, you see the same type of thing happening on that equipment that you saw with hand calculators and other devices such as that, things that are relatively simple hardware, or strongly hardware oriented. There are many places in the world that they can be made more economically than North America.

Senator GRASSLEY. So it's not superior technology. It's pricewise.

Mr. FITZGERALD. Well, it's good technology. It's good design. It's high quality design. And it's good manufacturing. But I would divorce that from what I would call large systems, particularly complex software systems, which area I do not think the trade balance is where you have a problem with the trade balance. It is the low end equipment. It's like the shoe business and the hand calculator business and all of that.

Senator GRASSLEY. Mr. Davis.

Mr. DAVIS. I think when you open a market in a high tech area, everyone gains. So I think some of the increased imports into the United States you are seeing are because of the expansion of the market in and of itself. Opening the telecommunications market of the United States and making it more competitive was supposed to do that. And I think it has done that. And so everyone in a sense benefits.

I think the reciprocal opportunity is really what we are trying to focus on. And I think it will have two effects. No. 1, it will increase the volume opportunity for American exporters, American companies, because their market potential will be larger. Second, their long-term costs will become more price competitive even in the face of a strong dollar, because most of these products are highly volume sensitive in terms of costs. But even if the strength of the dollar went away, the telecommunications imbalance will still be there.

Senator GRASSLEY. Mr. Campobasso.

Mr. CAMPOBASSO. I believe there is another phenomenon which we ought to recognize as well that's at least contributing in part to the situation. And that is the fact that when the AT&T divestiture occurred, we really were a vertically integrated structure in this country with AT&T being supplied mostly by Western Electric. NTT was being supplied by a variety of manufacturers, which were already in place and moving forward. I think when the U.S. market opened up, they were ready, more ready than U.S. industry was, by and large, to take advantage of that breakup. With time, I don't think there is any question that we can build back up.

But we have to have broader markets to approach and to penetrate than just our own market competing with them here, while they have a base in their own countries which we cannot penetrate. That goes not only for Japan, but for the telecommunications community at large, globally.

Senator GRASSLEY. All right.

Since I'm the only member here, and I'm going to go vote, we will have a short recess until the Chairman reconvenes the meeting upon his return.

[Whereupon, at 10:50 a.m., the hearing was recessed.]

AFTER RECESS

Senator DANFORTH. Mr. Campobasso, as I recall, Senator Chafee asked a question to the panel and you didn't have an opportunity to answer it. And I would like to give you an opportunity to answer it. I think the question was to the effect would the American telecommunications industry be able to make sales in Japan or in Europe or in Canada or in Brazil or wherever if their markets were as open as our markets are. That is, some people, I suppose, would say, well, it really doesn't matter if their markets are closed because for one reason or another we can't sell anything anyhow. And, therefore, just let them do whatever they want. Either the value of the dollar is cited or it is said that we don't try hard enough or our products aren't good enough or whatever. And I think that that was the thrust of Senator Chafee's question. So I would like to give you a chance to respond to that.

Mr. CAMPOBASSO. Thank you. As far as I am concerned, if the telecommunications markets of Japan, Canada, the EEC, et cetera, were open, I'm sure that U.S. industry could make further penetrations of those markets. There are certain things that have to occur, and U.S. industry has to do those things, such as meeting the specifications, et cetera. And I don't think that we would expect them to emulate 100 percent our standards or our marketplace.

But given a reasonable or essential equivalence in the access to those markets, I'm convinced that we can do a better job. But even with the negotiations underway with Japan since 1981, the trade balance has gone the wrong way. The reason is that those markets are not really opening up except where they selectively pick some particular thing that they want or need or find to their advantage to do. I think that these are examples of some of the negotiations which have taken place and some of the success stories you hear.

But as far as across the board market access, that is not the case. I think that that needs to be accomplished. I don't know of any other way—this is the brightest thing that I see on the horizon.

Senator DANFORTH. It would seem to me that if the standard is, as it is in this bill, substantial equivalence in competitive opportunity and if the point of the bill is to keep track of the degree of access that we are given to other markets and then to use our market as leverage to get into other markets, that it is very hard to disagree with the thrust of this bill.

Mr. CAMPOBASSO. I would agree 100 percent. That's one of the reasons why we wanted to recommend that the time factor be shortened but made equivalent across the board so no one looks like they are being singled out. And we also feel that in the GATT negotiations they must try to get this government procurement shield which some of the countries are hiding behind eliminated.

Senator DANFORTH. But, of course, the reason there are two tracks is that there is a different situation for a country where there already is an agreement in place. You don't have to negotiate the agreement. You enforce it.

Mr. CAMPOBASSO. Exactly.

Senator DANFORTH. If there isn't any agreement, in fairness, there should be some time to negotiate the agreement.

Gentlemen, thank you very much. I especially want to express my appreciation and the appreciation of the Finance Committee to you and to the organizations you represent for the time you have put into this issue over a period of years. I know that you have been very helpful and very forthcoming. And you have given us the benefit of your advice over a long period of time, and I appreciate it.

Thank you.

Mr. FITZGERALD. Thank you, Mr. Chairman.

Senator DANFORTH. Next we have a panel of Robert Wood representing the International Brotherhood of Electrical Workers; and John Morgan representing the Communication Workers of America.

Mr. Wood.

STATEMENT OF ROBERT B. WOOD, DIRECTOR OF RESEARCH AND EDUCATION, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, WASHINGTON, DC

Mr. WOOD. Thank you, Mr. Chairman.

My name is Robert Wood, and I'm director of research and education for the International Brotherhood of Electrical Workers. I'm appearing here this morning on behalf of our international president, Charles H. Pillard.

The IBEW represents over a million members employed throughout the entire scope of the electrical, electronics industry. And about 200,000 of our members are employed in the telecommunications field.

Senator Danforth, you and Senator Bentsen are to be complimented for recognizing the significance of our trade problems in the telecommunications industry. Your bill is certainly an initiative in the right direction. We, indeed, agree with what appears to be its purpose and objective. However, we have some specific suggestions that we hope could be added to the bill that would, in our view, enhance its effectiveness and produce the desired result.

Senator Chafee should also be complimented for the clarity and forthrightness of his approach to solving a significant part of our problem in this industry.

I would like now, Senator Danforth, to turn to my specific comments on the bill. First, we believe that it is extremely important to incorporate within the purpose of the act that the act is not only to foster economic and technological growth, but to foster domestic employment in the telecommunications industry.

Second, it's absolutely essential to define the U.S. telecommunications industry as the U.S. domestic operation of telecommunications companies within the telecommunications industry. No benefits accrued to American workers from the foreign operations of U.S. based multinational corporations.

Our third point: As well as being included in the stated purposes of the act, U.S. domestic employment should be included as a factor to be taken into account in any investigation of foreign trade barriers and any review process should also give substantial consideration to the U.S. domestic employment benefits that have resulted.

Fourth, the review process should not be left to the judgment of the party who negotiated the agreement. We would prefer for Congress, through an oversight arrangement, either approve or disapprove the agreements based on their effectiveness and results. Our NTT experience clearly underscores that point.

Fifth, we recommend that one year be set as the time limit to negotiate agreements with our trading partners. Experience shows that negotiations normally run the full course of time allocated regardless of how much time is given. One year is more than adequate. The current situation requires expedient action; not protracted negotiations.

Last, the bill provides in its present form authority so that the U.S. Trade Representative may exclude any country from investigations if he determines that the potential market in such country for telecommunications products and services is not substantial. We recommend that the country being considered for exclusion

must not only be absent of substantial market opportunities for U.S. exports of telecommunication products, but that additionally such country not be exporting telecommunication products to the United States.

In closing, Mr. Chairman, Senator Bentsen, and other colleagues of yours, we thank you for recognizing the trade problem in our country. Our country is experiencing a serious trade problem in the telecommunications area. And we appreciate the focus your efforts have brought to bear on these problems. If our country is going to come to grips with these problems, we must be prepared to take appropriate remedial action. We must not only be prepared to take appropriate action, we must take that action in a timely manner in order for it to be effective.

With the inclusion of the adjustments we have offered in S. 942, the International Brotherhood of Electrical Workers believes that a very vital, technologically advanced and competitive industry will be able to enjoy its rightful position, and that American workers will be able to experience job opportunities and growth and not suffer job losses and unemployment for unjustifiable reasons.

Thank you.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Wood follows:]

TESTIMONY OF
ROBERT B. WOOD
BEFORE THE
SENATE SUBCOMMITTEE ON INTERNATIONAL TRADE

My name is Robert B. Wood. I am appearing today before this Subcommittee on behalf of Charles H. Pillard, International President of the International Brotherhood of Electrical Workers. The IBEW represents about one million members employed in the different branches of the Electrical, Electronic and Telecommunications Industries. Several hundred thousand of our members are directly employed in the Telecommunications Industry. Some of them currently work for telephone operating companies, such as the various Bell Operating Companies, General Telephone, United Telephone, Central Telephone and Utilities, Alltel Systems and many other independent telephone companies. Others are employed by telephone interconnect companies, such as Fisk Telephone Systems, Inc.; RCA Service Company; ITT Services, Inc.; GTE Automatic Electric and others. Many of our members, as well, are employed by companies that manufacture telecommunications equipment such as the AT&T Manufacturing Branch AT&T Technology, formerly Western Electric; GTE Automatic Electric; GTE Lenkurt and others.

From the foregoing, one can see that the IBEW's involvement in the Telecommunications Industry has been substantial. Needless to say, our concern for what has been happening to the Domestic Telecommunications Equipment Industry is paramount.

Senator Danforth you are to be complimented for recognizing the significance of our trade problems in the telecommunications industry. Your Bill is

CERTAINLY AN INITIATIVE IN THE RIGHT DIRECTION. WE, INDEED, AGREE WITH WHAT APPEARS TO BE ITS PURPOSE AND OBJECTIVES. HOWEVER, WE HAVE SOME SPECIFIC SUGGESTIONS THAT WE HOPE COULD BE ADDED TO THE BILL THAT WOULD, IN OUR VIEW, ENHANCE ITS EFFECTIVENESS IN PRODUCING THE DESIRED RESULTS. THOSE COMMENTS WILL BE OFFERED SHORTLY.

WHAT WE SEE HAPPENING IN THE TELECOMMUNICATIONS INDUSTRY IS A DIRECT REFLECTION OF WHAT HAS HAPPENED TO THE TELEVISION RECEIVER INDUSTRY IN THE U. S. I AM SURE YOU ARE WELL AWARE OF WHAT HAS HAPPENED TO THE DOMESTIC TELEVISION INDUSTRY AND DOMESTIC EMPLOYMENT WITHIN THAT INDUSTRY. BUT, BECAUSE OF THE PARALLELING DEVELOPMENTS WE SEE TAKING PLACE IN THE TELECOMMUNICATIONS INDUSTRY, WE BELIEVE IT IS HELPFUL TO SUMMARIZE THOSE DEVELOPMENTS.

INITIALLY, IN THE TELEVISION RECEIVER INDUSTRY, IT WAS IMPORTED COMPONENTS THAT IMPACTED UPON DOMESTIC EMPLOYMENT AND DOMESTIC MANUFACTURING OPERATIONS INVOLVED IN THE PRODUCTION OF THOSE COMPONENTS. THE IMPORTATION OF COMPONENTS GREW TO INCLUDE SUBASSEMBLIES AND MODULES. NEXT, THE BLACK AND WHITE TELEVISION RECEIVER INDUSTRY BECAME TOTALLY DOMINATED BY IMPORTED SETS WITH ULTIMATELY NO U. S. PRODUCTION OF BLACK AND WHITE SETS. CONCURRENTLY, THE IMPORT PENETRATION RATIO OF COLOR TELEVISION RECEIVERS GREW STEADILY.

AGAIN, JUST AS IN THE BLACK AND WHITE RECEIVER INDUSTRY, IT WAS AT FIRST, IMPORTATION OF PARTS, MODULES AND SUBASSEMBLIES. NEXT, NEARLY COMPLETED SETS WERE IMPORTED. THEN, COMPLETED SETS OF SMALL SCREEN SIZE ENTERED THE U. S. MARKETPLACE WITH THE SET SIZE STEADILY GROWING. TODAY, IN OUR COUNTRY, WE HAVE BASICALLY A COLOR TELEVISION RECEIVER INDUSTRY CONSISTING OF FINAL ASSEMBLY OPERATIONS, PROVIDING JUST A FRACTION OF THE EMPLOYMENT OPPORTUNITIES THAT EXISTED PRIOR TO THE DECIMATION OF THIS INDUSTRY.

As a comparison of the developments is made, it is important to keep in mind several pertinent facts. Television technology was developed in this countr.. U. S. producers enjoyed the position of being on the leading edge of that technology. The development of the transistor and integrated circuit took place in this country and advanced the state-of-the-art of the Television Receiver Industry. In spite of these technological advantages, imports steadily grew and grew to such magnitude that today, it is impossible to buy a television receiver that is wholly U. S. made. What is just as significant to note, is that while the U. S. Television Receiver Industry was being affected by imports especially from Japan, Taiwan and South Korea, there was practically no opportunity for the export of television sets made in this country.

We see very similar developments occurring in the Telecommunications Industry and these developments are occurring under very similar circumstances. The state-of-the-art in the Telecommunications Industry in the U. S. is second to none. The Domestic Telecommunications Industry has been and continues to be on the leading edge of technology in this field. Yet, we have been unable to develop export markets for the Telecommunications equipment we produce. The U. S. market is open to the firms of foreign countries. Imports have been increasing substantially, especially since the divestiture of AT&T. Imports of telephone sets used in both home and commercial operations have flooded the marketplace. There have been increasing amounts of imported equipment used in the telephone interconnect sector and there has been an increasing amount of imported switch gear and other telephone apparatus utilized throughout the Telecommunications Industry. All of this is taking place in an industry that is highly recognized to be the most technologically advanced in the world.

At the same time, we have been denied export opportunities for products of this industry to our so-called trading partners. If a U. S. industry cannot sell products in an area in which we are highly technologically advanced, what kind of industry can we expect to derive export sales from? Another question we might raise, is given the present course of events that have taken place in the Telecommunications Industry, what evidence can one offer that this industry will not go the same route the Television Receiver Industry went? We submit that there is not a great deal of difference in the micro-electronics involved in television production and that involved in the production of telecommunications equipment. What has happened to the Domestic Television Industry can happen to the Domestic Telecommunications Industry and such changes can occur very rapidly.

From January 1980, to January 1984, employment for production workers in SIC 3661, Telephone and Telegraph Equipment, declined in the United States by 23.4 percent. The IBEW has experienced about a 14 percent jobs loss in that category since 1981. Of course, this one SIC category does not cover the full range of products in the Telecommunications Industry; but the employment experience in this category is representative of what is happening on a broader scale.

A closer look at employment at AT&T Technologies, formerly Western Electric, also indicates the employment trends in this industry. Combined, IBEW employment in these plants is now about 32,000. This is down from approximately 55,000 just four years ago. The plant where we represent employees at Lisle, Illinois, has closed; and the plants at Kearny, New Jersey; Hawthorne, Illinois; and Indianapolis, Indiana, are in the process of closing.

The intensity with which foreign imports of Telephone and Telegraph Equipment have overwhelmed the United States market is of a magnitude unfore-

SEEN BY ANYONE. IN 1982 THE UNITED STATES HAD APPROXIMATELY A $200-MILLION DOLLAR TRADE SURPLUS IN THIS INDUSTRY. IN 1983 THE SURGE OF IMPORTS HAD CHANGED THAT SURPLUS TO A $418 MILLION TRADE DEFICIT, A $600 MILLION SWING IN JUST ONE YEAR, AND THE CONDITION WAS RAPIDLY WORSENING. IN 1984 THE DEFICIT IN TELECOMMUNICATIONS WAS OVER $1 BILLION, AND PROJECTIONS FOR 1985 ARE FOR A DEFICIT ON THE ORDER OF $1.7 BILLION. THIS MEANS THAT FROM A $200-MILLION DOLLAR SURPLUS IN 1982 WE WILL HAVE GONE TO A COMBINED DEFICIT OF APPROXIMATELY $3.1 BILLION FOR THE YEARS 1983-1985. UNDER CURRENT CONDITIONS NO END OR RELIEF FROM THIS SURGE IS ANTICIPATED. IN 1983 IMPORTS INCREASED BY 93%; IN 1984, BY 44%; IN 1985 IT IS ANTICIPATED BY ANOTHER 44%; AND THIS IS EXPECTED TO CONTINUE UNABATED WITHOUT SOME STRONG ACTION.

WHAT HAS CAUSED THESE STAGGERING DEFICITS? ACCORDING TO THE U.S. INDUSTRIAL OUTLOOK FOR 1985, PUBLISHED BY THE COMMERCE DEPARTMENT:

> "THESE DEFICITS HAVE ARISEN BECAUSE U.S. MANUFACTURERS HAVE ONLY LIMITED ACCESS TO MANY FOREIGN GOVERNMENT-CONTROLLED MARKETS, WHEREAS DIVESTITURE COMPLETELY OPENED THE U.S. MARKET TO FOREIGN COMPETITION."

WHAT HAVE WE DONE TO REMEDY THIS PROBLEM? ON JANUARY 1, 1981, WE PUT INTO EFFECT AN AGREEMENT WITH JAPAN, THE LARGEST EXPORTER OF TELECOMMUNICATION EQUIPMENT TO THE UNITED STATES, TO OPEN UP THE JAPANESE MARKET TO U.S. EXPORTS OF TELECOMMUNICATIONS EQUIPMENT. THIS WAS KNOWN AS THE NTT AGREEMENT.

HAS THIS REMEDY WORKED?

IN EVALUATING THE AGREEMENT, IT IS HELPFUL TO USE THE STANDARDS ESTABLISHED BY FORMER UNITED STATES TRADE REPRESENTATIVE REUBIN ASKEW AND LATER BY A SUCCESSOR, NOW SECRETARY OF LABOR WILLIAM BROCK.

In December, 1980, upon completion of negotiating the agreement, then Ambassador Askew said,

> "The proof of the new agreement with Japan will be in how much procurement NTT does with U.S. and foreign suppliers. We consider Japan is on a trial period. In three years the GATT Code will be reopened for negotiation - and if NTT has not made significant purchases from U.S. suppliers, we would consider them noncompliant with the GATT Code and the U.S. would consider countermeasures."

Ambassador Brock on June 9, 1982, before this same Senate Finance Committee, Subcommittee on Trade in reporting on the operation of the MTN Government Procurement Code and the U.S./Japan NTT Agreement made the following statements:

> "The acid test for the Agreements will be their commercial results."

> "The proof of the pudding is in the eating and we are entering into a critical period for the agreement... Of course, we will not agree to extend the agreement unless we believe it has worked as intended. The next twelve months will be particularly critical..."

> "I will try not to predict the outcome of our evaluation as at this point only time and sales by U.S. firms will tell. It is my hope, however, that a year from now we will be able to report significant commercial results from the agreement."

In reviewing the four years this remedy has been in effect, we can readily determine the "proof of the pudding." From 1981 to 1984, the Japanese purchased $61 million in telecommunications equipment from the United States. During this same four-year period, the Japanese sold $1.948 billion in telecommunications equipment to the U.S. with exports of $941 million in 1984 alone. This means that during the four years of this agreement that for every $1 dollar in exports of U.S. telecommunications equipment to Japan the Japanese export $32 dollars worth of telecommunications equipment to the United States. The workers we represent cannot afford to eat any more of this pudding. Even with this abhorent result, this agreement was renewed and continues to be held as a solution to our problems.

The Trade and Tariff Act of 1984, defines the term "unreasonable" with regard to tariff or import restrictions to mean any act, policy of practice which, while not necessarily in violation of or inconsistent with the international legal rights of the United States, is otherwise deemed to be unfair and inequitable. The term includes, but is not limited to, an act, policy or practice which denies fair and equitable market opportunities.

It is beyond the realm of reason to suggest that the United States Telecommunications Industry, the acknowledged world technological leader, is being provided anything resembling fair and equitable market opportunities in Japan with a 32 to 1 trade flow advantage on the part of the Japanese over the last four years. The $914 million trade surplus in telecommunications equipment that Japan had in 1984 with the United States very clearly identifies the inequitable market opportunities afforded the U. S.

It is evident Japan has used the NTT Agreement as a delaying tactic in order to increase their exports of telecommunications equipment to the U. S.

MARKET WHILE AT THE SAME TIME CONTINUING TO KEEP THEIR MARKET CLOSED. THE JAPANESE HAVE USED THE UNFAIR ADVANTAGE OF A PROTECTED HOME MARKET TO PROMOTE EXPORTS WHILE AT THE SAME TIME EXPERIENCING NO COMPETITION AT HOME.

WE WOULD LIKE TO, AT THIS TIME, OFFER SOME SPECIFIC COMMENTS ON THE TELECOMMUNICATIONS TRADE ACT (S.942). WE ARE IN AGREEMENT WITH WHAT APPEARS TO BE THE INTENT OF THE STATED PURPOSES OF THE ACT, BUT WE WISH TO OFFER SOME ADJUSTMENTS IN THE LANGUAGE FOR CLARIFICATION.

THE IBEW BELIEVES IT IS EXTREMELY IMPORTANT TO STATE, WITHIN THE PURPOSE OF THE ACT, THAT THE ACT IS TO FOSTER NOT ONLY ECONOMIC AND TECHNOLOGICAL GROWTH, BUT TO FOSTER GROWTH IN DOMESTIC EMPLOYMENT IN THE TELECOMMUNICATIONS INDUSTRY. WE ALSO BELIEVE THAT IT IS ESSENTIAL TO DEFINE THE U. S. TELECOMMUNICATIONS INDUSTRY AS THE U. S. DOMESTIC OPERATIONS OF TELECOMMUNICATIONS COMPANIES WITHIN THE TELECOMMUNICATIONS INDUSTRY. WE FEEL THAT THIS IS EXTREMELY IMPORTANT IN THAT NO BENEFIT ACCRUES TO AMERICAN WORKERS FROM THE FOREIGN OPERATIONS OF U. S.-BASED MULTINATIONAL CORPORATIONS. IN FACT, ANY LEGISLATION THAT WOULD RESULT IN MAKING IT EASIER OR MORE CONDUCIVE FOR U. S.-BASED MULTINATIONAL CORPORATIONS TO SET UP OPERATIONS IN FOREIGN COUNTRIES WOULD BE INIMICAL TO AMERICAN WORKERS'S INTEREST. THE IBEW BELIEVES A CRITICAL ELEMENT OF ANY TRADE LEGISLATION SHOULD HAVE INHERENTLY A CONSTANT FOCUS ON DOMESTIC EMPLOYMENT. THE PROTECTION AND RESTORATION OF AMERICAN WORKERS'S JOBS, DEVASTATED BY THE FLOOD OF IMPORTS OF TELECOMMUNICATIONS PRODUCTS, SHOULD BE THE PRIMARY THEME OF ANY TRADE LEGISLATION. THE IMPORTANCE OF DOMESTIC EMPLOYMENT MUST BE CLEARLY IDENTIFIED IN THE STATED PURPOSES OF THE ACT.

THE PRESERVATION AND CREATION OF DOMESTIC JOBS IS SO IMPORTANT THAT IT SHOULD BE EMPHASIZED THROUGHOUT THIS LEGISLATION. AS WELL AS BEING INCLUDED IN

THE STATED PURPOSES, IT SHOULD BE INCLUDED AS A "FACTOR TO BE TAKEN INTO ACCOUNT" IN ANY INVESTIGATION OF FOREIGN TRADE BARRIERS. ANY REVIEW PROCESS SHOULD ALSO GIVE SUBSTANTIAL CONSIDERATION TO THE DOMESTIC EMPLOYMENT BENEFITS THAT HAVE RESULTED.

ANOTHER AREA OF THE BILL WE WOULD LIKE TO SEE ADJUSTED, IS THAT DEALING WITH THE REVIEW PROCESS UNDER WHICH THE UNITED STATES TRADE REPRESENTATIVE DETERMINES WHETHER THERE HAS BEEN COMPLIANCE WITH THE AGREEMENT. THIS LEAVES US VERY UNEASY. WE BELIEVE THAT IT IS VERY DIFFICULT FOR THE PARTY WHO NEGOTIATES AN AGREEMENT TO OBJECTIVELY EVALUATE THE SUCCESS OF THEIR OWN WORK. THE NTT AGREEMENT AND ITS SUBSEQUENT REVIEWS CLEARLY ILLUSTRATE OUR CONTENTION. WE WOULD MUCH PREFER RATHER THAN HAVING THE ANNUAL REVIEWS BEING CONDUCTED BY THE USTR, THAT THERE BE PUT IN PLACE A SYSTEM OF CONGRESSIONAL OVERSIGHT TO OBJECTIVELY EVALUATE THE EFFECTIVENESS OF THE AGREEMENTS.

ALSO, IN THE SETTING OF TIME LIMITS, WE RECOMMEND THAT RATHER THAN ALLOWING TWO YEARS FOR AN AGREEMENT TO BE REACHED, THAT THIS BE REDUCED TO ONE YEAR. IT HAS BEEN OUR EXPERIENCE THAT THE NEGOTIATIONS OF INTERNATIONAL AGREEMENTS USE ALL THE TIME ALLOCATED FOR THAT PURPOSE, REGARDLESS OF ITS LENGTH. THE CURRENT SITUATION IN THE TELECOMMUNICATIONS INDUSTRY REQUIRES EXPEDIENT ACTION AND CANNOT AFFORD THE LUXURY OF PROTRACTED NEGOTIATIONS.

IN REGARD TO THE AUTHORITY PROVIDED TO THE UNITED STATES TRADE REPRESENTATIVE IN THE BILL, WHEREBY HE MAY EXCLUDE ANY COUNTRY FROM INVESTIGATION IF HE DETERMINES THAT THE POTENTIAL MARKET IN SUCH COUNTRY FOR U. S. TELECOMMUNICATIONS PRODUCTS AND SERVICES IS NOT SUBSTANTIAL, WE BELIEVE THAT WITHOUT BEING MODIFIED, IT WOULD ALLOW THE UNITED STATES TRADE REPRESENTATIVE TO EXCLUDE COUNTRIES THAT COULD VERY WELL BE EXPORTING SUBSTANTIAL AMOUNTS OF TELECOMMUNICATIONS PRODUCTS TO THE U. S. THEREFORE, WE RECOMMEND THAT THE COUNTRY BEING

CONSIDERED FOR EXCLUSION MUST NOT ONLY BE ABSENT OF SUBSTANTIAL MARKET OPPORTUNITIES FOR U. S. EXPORTS OF TELECOMMUNICATIONS PRODUCTS, BUT THAT ADDITIONALLY, SUCH COUNTRIES NOT BE EXPORTING TELECOMMUNICATIONS PRODUCTS TO THE U. S.

WHILE THE THRUST OF OUR COMMENTS HAVE BEEN ON JAPAN, WE RECOGNIZE AND SUPPORT THE ATTENTION YOUR BILL PROVIDES TO ADDRESSING THE PROBLEMS IN THE TELECOMMUNICATIONS INDUSTRY CAUSED BY THE POLICIES OF OUR OTHER TRADING PARTNERS. THE REASON FOR OUR ATTENTION TO JAPAN, WE BELIEVE IS CLEARLY UNDERSTOOD AND CERTAINLY UNDERSCORED BY THE FOLLOWING QUOTE OF SENATOR DANFORTH.

> "WHAT SETS JAPAN APART IS THIS: NO OTHER NATION CONTRIBUTES SO LITTLE TO THE OPEN TRADING SYSTEM IN RELATION TO ITS GAIN FROM THAT SYSTEM. INTERNATIONAL TRADE CANNOT FUNCTION EFFECTIVELY WHEN THE WORLD'S SECOND LARGEST ECONOMY ABDICATES ITS RESPONSIBILITIES TO THE SYSTEM."

THIS SITUATION IS NO MORE CLEARLY ILLUSTRATED THAN IN THE TELECOMMUNICATIONS INDUSTRY.

MR. CHAIRMAN, WE THANK YOU FOR RECOGNIZING THE TRADE PROBLEMS OUR COUNTRY HAS IN THE TELECOMMUNICATIONS AREA, AND WE APPRECIATE THE FOCUS YOUR EFFORTS HAVE BROUGHT TO BEAR ON THESE PROBLEMS. IF OUR COUNTRY IS GOING TO COME TO GRIPS WITH THESE PROBLEMS, WE MUST BE PREPARED TO TAKE APPROPRIATE REMEDIAL ACTION. WE MUST NOT ONLY BE PREPARED TO TAKE APPROPRIATE ACTION, WE MUST TAKE THAT ACTION IN A TIMELY MANNER IN ORDER FOR IT TO BE EFFECTIVE. WITH THE INCLUSION OF THE ADJUSTMENTS WE HAVE OFFERED IN S.942, THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS BELIEVES THAT A VERY VITAL, TECHNOLOGICALLY ADVANCED AND COMPETITIVE INDUSTRY WILL BE ABLE TO ENJOY ITS RIGHTFUL POSITION AND THAT AMERICAN WORKERS WILL BE ABLE TO EXPERIENCE JOB OPPORTUNITIES AND GROWTH AND NOT SUFFER JOB LOSSES AND UNEMPLOYMENT FOR UNJUSTIFIABLE REASONS.

STATEMENT OF JOHN MORGAN, ASSISTANT TO EXECUTIVE VICE PRESIDENT, LEGISLATION/GOVERNMENT AGENCIES, COMMUNICATION WORKERS OF AMERICA, WASHINGTON, DC

Senator DANFORTH. Mr. Morgan.

Mr. MORGAN. Good morning, Mr. Chairman. Thank you for asking me to be here.

CWA supports S. 942 offered by you and some of your colleagues as a massive improvement over today's alleged policy in the telecommunications trade, one which reasonably can be termed drift and disaster. We do have a few suggestions also, paralleling many of those of my colleague, Mr. Wood.

The bill addresses Japan on the one hand and the rest of the world on the other in telecommunications trade, and properly so. The situation is urgent, requiring early action to prevent further damage to our domestic manufacturing industry. The performance since 1981 under the Nippon Telegraph and Telephone Agreement has provided little genuine access to the world's number two market, despite the lofty phrases by the administration. And by genuine access I refer to sales. In the last few weeks we have all been subjected to the word from the administration that the Japanese have given virtually everything requested. The latest documentation we have seen was the March 28 exchange of correspondence between Under Secretary Olmer and his counterpart, Mr. Koyama. One might conclude that Mr. Olmer and Koyama were at two different meetings and were reporting two different things. And we think that Secretary Olmer did as good a job he could given his circumstances.

Because of the administration's attitude, which we view as unreal, we would find great merit in Senator Chafee's bill, S. 728, which would very soon stop all the endless talk and game playing and would lead to some action.

We've had about 8 years of talk on NTT. And the 15 days called for in S. 728 certainly suffice to wrap up any kind of an agreement on it.

In S. 942, the NTT problem is put on a very short action oriented timespan of 6 months in sections 101(a)(2) and 103. At least in the case of Japan, that full 6 months would be too long in our view.

One key recommendation that we would make in several places would be under the factors to be taken into account to include the domestic employment effects made applicable to trade with Japan and the rest of the world.

In sections 101, 102 and 103, we would stress that success must be measured in sales of exports from our shores. And we see that the aim of the legislation is there and ask the committee to stress that point. As we understand your bill, the remedies under 102 and 103 are certain, no longer left merely discretionary. And it is necessary to keep a high degree of certainty in the process in order to attain credibility in our trade posture.

We have a couple of reservations on title II of your bill. One of those would be that it might be taken as granting general negotiating authority. And we agree with your remarks last week at the Press Club that another round not be undertaken without having

done a great amount of work to prepare, work which hasn't been done.

The other suggestion on title II would be to shorten the timespan from 3 years down to 2 so that if you are going to have that 1-year breather period, the 1-year grace period, that your total period under that would be only 2 years.

We hope some day to see a world of free and fair trade with the words "free" and "fair" inseparable. We note that section 302 builds on the service sector access authorization provisions of the 1984 Trade Tariff Act. Clarifying that equipment used in the provision of service also is to be covered.

And we endorse that provision and we appreciate your introducing this bill and sponsoring it.

Thank you.

Senator DANFORTH. Thank you very much.

[The prepared statement of Mr. Morgan follows:]

May 3, 1985

STATEMENT OF JOHN MORGAN
ON BEHALF OF COMMUNICATIONS WORKERS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE

CWA supports S. 942, offered by Chairman Danforth and others, as a massive improvement over today's alleged policy in the telecommunications trade, one which can reasonably be termed drift and disaster. We do have some suggestions to clarify and strengthen the legislation.

The bill addresses Japan on one hand and the rest of the world on the other in telecommunications trade. The situation is urgent, requiring early action to prevent further damage to our domestic manufacturing industry which has resulted from two major Federal actions -- the April 1980 "Computer II" decisionn of the Federal Communications Commission and the January 1984 breakup of American Telephone & Telegraph Co. As you correctly noted last year in offering S. 2618, the AT&T divestiture was a unilateral giveaway of unlimited access to the United States market without any kind of corresponding action to open other nations' markets, and especially that of Japan.

The so-called agreement to provide open procurement within Nippon Telegraph & Telephone Public Corporation has been, is, and is destined to remain mere words on paper. The performance since 1981 under that so-called agreement has provided little genuine access to the world's No. 2 market -- despite the lofty phrases. By "genuine access" I refer to sales. In the last few weeks we all have been subjected to attestations by the Administration that the Japanese have now given virtually

everything requested. The latest documentation we have seen was the March 28 exchange of correspondence between Under Secretary Lionel Olmer and his counterpart, Moriya Koyama of MPT. One might conclude that Messrs. Olmer and Koyama were reporting results of two different meetings and agreements.

While Secretary Olmer did as good a job as possible in his recent trips to Japan, it is necessary to keep in mind the newer added complexities he faced. Before the NTT "privatization" on April 1, the NTT agreement supposedly was functioning to open the procurement processes. But it had little effect. After April 1, the Japanese announced new barriers in their processes. Secretary Olmer's statements and his testimony last Tuesday before a House Banking subcommittee provided no detail as to the latest proclaimed "success" in securing access to the Japanese market. We do await the details.

Because of the Administration's attitude, which we view as entirely unreal, we find great merit in Senator Chafee's bill, S. 728, which would very soon stop all of the endless talk and games-playing and lead to action. We already have had about eight years of talk about NTT; the 15 days called for in S. 728 should certainly suffice to wrap up an agreement.

We are more than deeply discouraged that Secretary Olmer's testimony Tuesday noted that only the first of three phases now has been completed. The estimate is for a further three years of negotiations on telecommunications.

In S. 942, the NTT problem is put on a very short action-oriented time-span of six months, in Sections 101(a)(2) and 103. At least in the case of Japan, that full six months would be too long, in our view.

Given the advanced telecommunications technology developed and used in the United States by our domestic goods-makers, we find it repugnant that the Administration is not taking all possible immediate steps to resist foreign protectionism in Japan and elsewhere. As you noted in your summary of S. 942: "Foreign telecommunications markets are characterized by extensive government intervention, including restrictive import practices and discriminatory government procurement. These unfair and discriminatory practices in foreign countries threaten the loss of jobs in the United States telecommunications industry." We agree.

One key recommendation is to include, in Section 101(b)(1), captioned "Factors to Be Taken Into Account," a new subparagraph "C", to include the domestic employment effects and made applicable to trade with Japan and the rest of the world. We also suggest that an employment effects requirement be included within Section 104(b).

Within AT&T Technologies -- a unit created at divestiture to include what was known as Western Electric -- we have noted an employment drop of about 15,000 jobs from January 1, 1984, through April 1, 1985. These jobs have disappeared via attrition, various kinds of voluntary and involuntary "early-out"

programs and layoffs. AT&T's 1984 annual report notes the problems encountered in the first year after the breakup; four manufacturing plants are in the process of being closed. We urge the Committee to include employment in the United States as a high priority. We hope not to see large numbers of telecommunications workers forced to forfeit skills, knowledge and gainful employment in the industry and become dislocated workers who will begin new "careers" flipping hamburgers in fast-food outlets.

In Sections 101, 102 and 103 of S. 942, we would stress that success in telecommunications trade must be measured in sales of exports from our shores. We see that aim in the legislation and ask that the Committee report stress that point. Our trade negotiators must be aware that the merely cosmetic signing of an agreement is meaningless; certainty of follow-through and action carries a deep meaning.

As we understand the bill, the remedies under Sections 102 and 103 are certain, no longer left merely discretionary. It is necessary to keep a high degree of this certainty of penalty, in order to attain credibility in our trade posture.

We have reservations on Title II of S. 942, in that it gives a one-year "breather" after the first two years. We have two proposals on Title II:

a. Clarify the Title II language, including the caption, which could be taken as providing for general negotiating authority. We agree with your remarks last week

at the National Press Club that a new negotiating Round should not be undertaken soon. A new Round could become yet another means by which three to six more years of unfair trade practices would continue.

b. Shorten the three years to two, with one year granted in Section 102 and the one-year "breather" or "grace period" in Title II.

Our rationale is based on the general recognition of the urgency of acting soon to achieve a world of free and fair trade -- with the words "free" and "fair" inseparable.

Section 301 addresses the FCC's Part 68 terminal equipment registration program, with action prospective in nature. (This concept also is addressed in H.R. 2037, offered by Rep. Matt Rinaldo.) Given the dynamic nature of the equipment market, a prohibition against new registrations directed against goods from nations not trading fairly would be effective, providing another incentive to change trade policies.

Section 302 builds on the "service sector access authorization" provisions of the 1984 Trade and Tariff Act, clarifying that equipment used in the provision of service also is covered.

We endorse Sections 301 and 302 as necessary parts of this legislation.

First-quarter 1985 trade deficit statistics of $33 billion only underscore the urgency for the Congress to act. For all of 1985, we can only expect $150 to $160 billion, with manufactured goods once again ravaging our economy.

Senator DANFORTH. Is employment in this industry, in the telecommunications industry, widening or falling or staying the same? And do you think that—well, what's the outlook for the future? Is it bright or not as bright as it should be? What can you tell us about employment in telecommunications?

Mr. WOOD. Senator, I would be pleased to respond to that. In the IBEW, with AT&T technologies alone, formerly Western Electric, the IBEW has experienced a job loss from an employment level of 55,000 members just 4 years down to approximately 32,000 today. So we have in the neighborhood of about a 14-percent job loss.

If you look at BLS data for the relative SIC's, you find that the experience has been very similar. In fact, even more so. We looked at a period that went back to, I believe, 1980, if memory serves me correctly, and unemployment was in the neighborhood of about 24 percent.

So one can see from those experiences that employment is certainly declining. We have plants closing around this country. We have experienced plant closing in Kearny, NJ; a plant closing in Illinois.

Senator DANFORTH. Mr. Wood, are these telecommunications plants?

Mr. WOOD. Yes; Senator, these are telecommunications plants. In fact, these are formerly Western Electric plants, ATT technology plants.

And we understand that operations in other parts of the country will be curtailed in the very near future, that some of the major telecommunication producers in this country are getting out of the telephone handset business, the home telephone set business. It's a very distasteful experience that we see ourselves faced with because it tracks very much the experience that we had in the television receiver industry. We saw job losses first come as a result of the imports of components and then we saw subassemblies and then whole black and white sets, and then color sets. So today in this country we have just basically a final assembly type of operation of color television sets. In fact, in your home State we represent people that are employed at the Zenith plant. And there we have had a number of people lose their jobs because much of the work was taken out of this country and much of the component and subassembly work done in places in Taiwan and Mexico.

And we see a very similar thing happening in the telecommunications. Another parallel, without taking too much time, that I would like to draw is that I think it's really good to focus on these two industries because the television receiver industry in this country was also very technologically advanced. We were on the leading edge of technology in that industry. We developed the transistor in the Bell Laboratories in 1948. We developed in this country the integrated circuit. Yet, we lost this industry. We lost an important industry. We went down from an industry that employed 100,000 American workers to an industry today that has in the neighborhood of about 22,000 or 23,000 people employed.

The same thing can happen to the telecommunications industry. There is not a tremendous amount of difference from the microelectronics involved in the production of telecommunications equip-

ment as to what you find in the production of television receiver equipment.

Thank you.

Senator DANFORTH. Mr. Morgan.

Mr. MORGAN. Mr. Chairman, I can supplement my colleague by offering a couple of numbers that were in my written statement. Since divestiture, the 15-month period since divestiture, AT&T technologies appears to have gone down in employment overall by 15,000, plus or minus a couple hundred. And that not only would be manufacturing, but that would be in the supply distribution operations in what used to be Western Electric.

So I think we are saying the same thing, but in different context.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Morgan, Mr. Wood, I would like to thank you very much for coming here today because it seems to me what you have done is you have taken the focus away from billions of dollars of deficits and access to markets and large terms like that, and you have brought it right down to jobs in America, what this is all about. In your statement, Mr. Wood, you stressed the technological lead we had in the television construction business, television set production, and how that is just gone. And we think everything is fine in the telecommunications industry, but the same thing can happen. It's just like the passenger pigeon. We've seen it and it can happen, and we ought to be aware of this.

And I think both your statement and that of Mr. Morgan have brought that clear—when Mr. Morgan in his statement on page 4 says: "We urge the committee to include employment in the U.S. as a high priority. We hope not to see large numbers of telecommunication workers forced to forfeit skills, knowledge and gainful employment and become dislocated workers who will begin new 'careers' flipping hamburgers in some fast food outlet."

I just hope that from this committee we can come forward with some constructive proposals. I agree with what you said about these negotiations that have been going on and on. And I don't know whether it was you or Mr. Wood that quoted that we have very fine representatives in the USTR, both Mr. Askew and Ambassador Brock, yet this all started in 1981 with NTT and the access to the market.

So I want to thank you both for coming and bringing these facts home to us.

In your testimony, Mr. Wood, you recite on page 4 the plants are down from 55,000 to 32,000. So we have got a real problem. And, true, it's not just Japan, as was testified by the prior witnesses. But it seems to me Japan is the most flagrant. I think those quotes you had from the distinguished chairman's speeches were good.

I read his speeches myself. [Laughter.]

And I find them excellent. As a matter of fact, he sends them to me. [Laughter.]

And let's listen to this one. "What sets Japan apart is this: No other nation contributes so little to the open trading system in relation to its gain from that system." We've said 100 times here—and I have stressed—that this isn't to keep out any Japanese products. Come one, come all. But just let us in there so we can have

access. And that isn't getting away from the things we have got to attend to and which we are trying to attend to right now, that is the value of the dollar, which is directly tied to the U.S. budget deficit. So we are tackling that too. And we are not saying that we don't have plenty of things to straighten out in the Senate and in the Congress, hopefully, as a whole, but there are other aspects besides the strong dollar.

Thank you both for coming.

Mr. WOOD. If I could, Senator Chafee, I would just add that I don't see how anyone can say that we don't have a real problem with Japan. And all we have to look at is the bottom line figure of a $32 to $1 trade imbalance in telecommunications. Now how can anyone argue or put forth any kind of a rational argument that we don't have a problem with Japan when we have got that kind of a trade imbalance. For every $32 of goods they sell us in telecommunications, we sell them $1 worth.

Senator CHAFEE. Mr. Chairman, I would just like to add something.

Some of the press has carried the statements about Japan bashing. That's utter nonsense. Nobody around here is out to bash Japan. Japan is a wonderful ally of the United States. We have the most splendid relations with them. Just because we've got a problem in the trade area has nothing to do with bashing Japan. And I'd like to set that old wive's tale to rest once and for all.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

I have several points to make. First, I want to thank both of you, Mr. Wood and Mr. Morgan. I agree with Senator Chafee that we are not involved in Japan bashing here, but the fact of the matter here is that, as the chairman says, no country has benefitted more from an open trading system than has the country of Japan, especially since World War II.

When Japan adopted the Yoshida Doctrine at the end of the war, it tried to become an Asian Switzerland. That is, build up economically but not become involved in world political affairs. And it was very successful in adopting that course.

But now Japan has grown so much that it's incumbent upon the Japanese to undertake more responsibility to open up, to change and to adapt. The fact of the matter is that there is no country that can adapt more quickly than can Japan. Certainly Japan adapted very quickly at the end of the war. And Japan also did a turnaround in 1867 when Perry came to Japan and Japan realized if it was going to survive, it had to open up. Otherwise, it would be dominated by other countries.

Japan can adapt. The problem, though, is that I don't know how quickly Japan wants to adapt. I was talking to a major industrialist in Japan several months ago about the privatization of NTT. He said that once the regulations are opened up and some of the more visible barriers to trade are reduced, Japan is still going to be like a hotel in which the doors are open, but the rooms are all full.

A lot of this is attitudinal. And I think, frankly, that a lot of people in Japan know that those attitudes have to change. They have to not only open up the doors, but also have some empty

rooms, too, so that the hotel can be used by Americans as well as Japanese.

Turning to another subject, though, I would like for you to both tell me what you know about labor advisory committees' advice to our trade negotiators or to our trade policy people with respect to, first, this bill or these series of bills, and, second, advisory committees' advice on the new round of GATT.

Mr. WOOD. Well, first, Senator, I would say that we don't believe that sufficient effort is made to solicit our advice. Second, I would say that when we have attempted to offer our advice, for the most part it has been ignored.

For example, we recommended against the renewal of the NTT agreement simply because we saw no fruits accruing to American industry and American workers. That advice was completely ignored. Again, for the most part, we had to take the initiative there to even get that advice to them. With regard to the discussions for upcoming negotiations, upcoming multilateral negotiations, again, it appears that our advice is being taken rather lightly.

We feel that they could benefit, that the administration, this administration or any administration in office, could benefit substantially from the advice that labor has to offer because we can make them aware of the experiences that we are having in the various industries where we represent workers.

Senator BAUCUS. Could you give me one clear example of advice that has been offered and rejected?

Mr. WOOD. Yes; the advice on the NTT agreement, the renewal of that agreement. We appeared before the Trade Policy Staff Committee and offered the recommendation that that agreement should not be renewed. We attempted to have other consultations with the USTR's office to try to underscore that point and to try to find out where was the recommendations coming from in support of renewing the agreement. If the USTR had contrary views coming from industry, then we asked please share those views with us; please let us know why it is important to renew this agreement.

We began to draw the conclusion that we have people in the USTR's office that just like to negotiate and it apparently doesn't matter to them what the bottom line of their negotiations are or whether they ever reach a bottom line.

Senator BAUCUS. I see my time is up. Could you, for the record by documentation of times and dates and advice given and also what the correspondence has been, provide that?

Mr. WOOD. Yes, I could.

Senator BAUCUS. Mr. Chairman, I think part of what Mr. Wood is saying is that we may not be ready for a full GATT round. And a lot of us have been saying that.

And, Mr. Chairman, I have been reading your speeches too and I know you agree. And I think what Mr. Wood is saying tends to confirm that we may not be ready for a new GATT round.

Senator DANFORTH. I have never been so flattered in my life to know that you all have read my speeches. Thank you.

Gentlemen, thank you very much for your testimony. It has been very helpful.

Mr. MORGAN. Mr. Chairman, for Senator Baucus' benefit especially, I also have quite a large amount of paper, documentation

over the last 8 years on this matter which I would be delighted to share.

Senator DANFORTH. We would be happy to look at it. Thank you.

[Mr. Wood subsequently supplied the following documentation of correspondence, requested by Senator Baucus:]

IBEW

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

1125-Fifteenth St. N.W.
Washington, D.C. 20005

Charles H. Pillard
International
President

Ralph A. Leigon
International
Secretary

January 30, 1985

Ambassador William E. Brock
United States Trade Representative
600 - 17 Street, NW
Washington, DC 20506

Dear Ambassador Brock:

The International Brotherhood of Electrical Workers gave testimony on November 15, 1984, at the International Trade Commission (ITC) on a matter you had asked the Commission to investigate. The investigation was TA-131(B)-9 on the "Probable Economic Effect of Providing Duty Free Treatment for U.S. Imports of Certain High Technology Products." We expressed several concerns in that testimony, such as loss of revenue to the U.S. Treasury, the resulting strengthening of Japanese Research and Development, incentives to U.S. firms to continue to move production to foreign locations, etc. One of our major concerns was that employment opportunities would continue to be eroded. Another important concern we conveyed to the Commission was the likely effects the elimination of the tariff on semiconductors could have on domestic production and thus our national security.

It is our understanding that the ITC submitted their report to you on December 14, 1984. Would you advise us as to their findings and also as to the status of any negotiations with Japan on tariffs on semiconductors. What is USTR doing or planning to do on this issue?

Let me again emphasize that the IBEW believes that such bilateral negotiations are a mistake and that tariff reductions on vital high technology products are inappropriate at this time.

Sincerely yours,

Charles H. Pillard

Charles H. Pillard
International President

CHP/jl/RBW

Enclosure

IBEW

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

1125 Fifteenth St. N.W.
Washington, D.C. 20005

Charles H. Pillard
International
President

Ralph A. Leigon
International
Secretary

January 29, 1985

Chairman
International Trade Commission
701 E Street, NW
Washington, DC 20436

Dear Mr. Chairman:

On November 15, 1984, the International Trade Commission had public hearings on the probable economic effect of providing duty-free treatment of U.S. imports on certain high technology products (332-199). The International Brotherhood of Electrical Workers was a participant in these public hearings and is vitally interested in the ITC's findings.

It is our understanding that a final report on this matter was sent to the United States Trade Representative (USTR) on December 14, 1984. The IBEW, because of its involvement in this case and in these public hearings, requests a copy of your report to the USTR.

Sincerely yours,

Charles H. Pillard

Charles H. Pillard
International President

CHP/jl/RBW

October 11, 1984

Ambassador William E. Brock
United States Trade Representative
600 - 17 Street, NW
Washington, DC 20506

Dear Ambassador Brock:

As you know, the International Brotherhood of Electrical Workers (IBEW) has been very concerned with how the Nippon Telegraph and Telephone (NTT) Agreement has operated.

One criteria that should be used in judging the performance of the NTT Agreement is the employment generated in this country as a result of NTT purchases. We urge you to make sure that the employment effect is carefully considered.

Members of my staff and others from organized labor met with Ambassador Smith and others of your staff in September. At that meeting data on the operation of the NTT Agreement and sales under the Government Procurement Code during the past year was promised. We look forward to receiving that data in the near future.

We are in the process of preparing data relative to the IBEW's experience in telecommunciations. We will make that data available to your office as soon as it is in final form.

The annual review under the extension of the NTT Agreement was added to ensure that the Japanese didn't just come forward with some purchases at the end of another three-year period as they did in 1983. Therefore, I urge you to make this review a meaningful process. Because of the importance of this evaluation process in terms of employment for U.S. workers and sales for U.S. firms, we would recommend you give consideration to conducting public hearings on the operation of the agreement during the first year of the extension.

Sincerely yours,

Charles H. Pillard
International President

October 24, 1983

Ambassador William E. Brock
United States Trade Representative
600 - 17 Street, NW
Washington, DC 20506

Dear Ambassador Brock:

In your role as the United States Trade Representative and your position as chairman of the interagency review process, you will no doubt have substantial input into the decision of whether or not to renew the NTT Agreement. The International Brotherhood of Electrical Workers believes very strongly that this agreement should not be renewed.

During the term of this agreement, the Japanese have increased their penetration of the U.S. telecommunications market to an alarming degree; and the IBEW has suffered more than a 23 percent decline in employment in the industry while at the same time sales to NTT have been at an insultingly low level. This is an intolerable situation.

The goal of the original NTT negotiations as expressed in the Strauss-Ushiba "Joint Statement" was to bring about joint reciprocity in trade between our two countries in telecommunications. The Japanese have raped our market while throwing us a few crumbs. Their performance under the terms of this agreement has been in such manifestly bad faith as to deserve no second chance — three years of this kind of experience, indeed, is enough!

As USTR you have worked hard to bring about compliance on the part of the Japanese. You and your assistants have met with the Japanese on numerous occasions, both in this country and in Japan. You have publicly, in news interviews and before congressional committees, warned that unless there was performance in the form of significant sales to NTT by U.S. firms this agreement would not be renewed. I appeal to you now to use your best efforts to see that the agreement is not renewed.

The NTT Agreement represents the essence of what is wrong in our trading relationship with Japan. Our market is open while theirs is essentially closed. In an area like telecommunications where the United States is the undisputed world leader, the Japanese use stalling tactics while building up the strength of their domestic industry and will only begin to allow outsiders into their market when it no longer makes any difference. We must now act in a timely fashion to insure that this tactic does not work once again in telecommunications the way it has in so many other industries.

Mr. Ambassador, we have an unemployment rate in this country of well over 9 percent while unemployment in Japan is only about 2.5 percent. The IBEW represents over 100,000 workers in the telecommunications industry, and their jobs are affected by such agreements as the NTT Agreement. These workers as well as many thousands of others are being unfairly injured. Surely, your office will want to concern itself with the question of how many domestic jobs have resulted from the NTT Agreement. With multi-national corporations able to source major portions of their production labor from foreign operations, it is critically important to know the answer to the preceding question. This should be the criteria by which the NTT Agreement is judged.

Renewal would allow the Japanese continued unhampered access to our market. Non-renewal would send a message to the U.S. Congress that there are serious problems in this trade area with Japan that demand corrective action. It would also reinstitute the Buy America provisions of Government Procurement; but more importantly, non-renewal of the Nippon Telegraph and Telephone Agreement could be an important link in correcting a broad range of trade problems with Japan.

I trust these observations will be of some guidance to you at this critical time.

Sincerely yours,

Charles H. Pillard
International President

CHP/jl /RBW

January 11, 1983

Ambassador William E. Brock
United States Trade Representative
600 - 17 Street, NW
Washington, DC 20506

Dear Ambassador Brock:

The United States Government, through your office, is presently negotiating with the Governments of Brazil and Peru on the subject of export subsidies. The International Brotherhood of Electrical Workers is vitally concerned with the general stance the United States is taking in these negotiations and with the substance of these proposed agreements.

In late 1979, Brazil agreed to staged reductions of their IPI and ICM subsidies by June 30, 1983. In response, the United States accepted Brazil as a signatory to the Subsidies Code of the General Agreement on Tariffs and Trade (GATT) thus giving Brazil the benefit of the injury test. In the spring of 1982, it was discovered that Brazil had, as part of its BEFIEX program, signed contracts with exporting firms guaranteeing continuation of the IPI export premium through 1989. This should be prima facie evidence of bad faith on the part of the Government of Brazil. The United States should expect other governments to act in good faith and live up to their international agreements. Brazil's present financial problems and the nervousness of U.S. bankers should not prevent the United States from withdrawing the injury test. To allow Brazil's subsidized products (such as auto parts and civil aircraft and their associated electrical/electronic parts) to continue to enter the United States without the appropriate countervailing duties is to require U.S. workers and industry to bear the burden for Brazil's actions.

The proposed agreement with Peru on export subsidies is likewise bad for U.S. workers and industry. This agreement calls for the U.S. to immediately forgive past countervailing duties and provide an injury test, whereas Peru gives nothing for three years, a promise to end subsidies in an end loaded staging scheme in five years and even be able to repudiate that without penalty. Frankly, I am appalled that such an agreement would even be considered; and this would certainly be the wrong signal to send to other potential signers to the Subsidy Code.

The substance of these proposed agreements points up once again the ineffectiveness of the general stance the U.S. Government has taken in trade negotiations. Our sometimes tough talk fails because it is not accompanied by actions of any substance in cases where our vital interests are at stake. Thus, our domestic industry

continues in decline; and American workers continue to lose jobs to subsidized and other imports. This has no doubt contributed to what Ambassador Macdonald referred to recently when he stated that the domestic sentiment in the U.S. is not one of "protectionism" but rather a loss of confidence in the trading system. One can well understand this "loss of confidence" when such inequitable agreements are not only proposed but also enacted to the detriment of domestic workers and industry.

Thank you for the opportunity to comment on these two proposed agreements. I would urge you not to accept them in their present form but to negotiate agreements that are equitable and fair to the interest of American workers and industry in line with the above comments.

Sincerely yours,

Charles H. Pillard
International President

CHP/jl/RBW

Communications Workers of America
(AFFILIATED WITH AFL-CIO)

OFFICE OF
THE PRESIDENT

1925 K STREET, N.W., WASHINGTON, D.C. 20006

September 20, 1978

Advisory Note to U.S. International Trade Commission:

On numerous pages of the attached CWA testimony, we refer to certain numbered Tables, which make up the 29 pages of the Commission's Preliminary Report.

At the time the Union's testimony was prepared, the Commission had not assigned numbers to the Tables on those pages.

Thus, CWA assigned numbers to the Tables in the order they were collated and published by the Commission in its Preliminary Report. This CWA numbering system may differ somewhat from the designations appearing in the Final Report in the Commissioners' hands.

Where Table numbers such as "18A" and "24A" appear, the references are to the lower Table on a given page.

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The following is a guide to coordinating table references used in the CWA testimony with the numbering system in the Commission's Final Report.

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Before the

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of

Baseline Study of the Telephone Terminal and Switching Equipment Industry	))))	Docket No. TA-333-92

TESTIMONY OF
JOHN MORGAN
ADMINISTRATIVE ASSISTANT TO THE PRESIDENT
COMMUNICATIONS WORKERS OF AMERICA (AFL-CIO)
SEPTEMBER 26, 1978

The Communications Workers of America is an affiliate of the AFL-CIO, and represents more than one-half million American men and women. Most of these are employed in some aspect of the telephone industry. However, among the more than 650 contractual relationships we have with employers, there also are persons in public employment, non-telephone manufacturing, broadcasting and many other endeavors.

We have been following the matter of importation of telephone equipment for several years, and we have not yet seen much to encourage us. We hope we are not being dismally pessimistic about the future of the telephone communications equipment industry, which today employs approximately 200,000 Americans.

Hard and definite numbers have been most difficult to secure. The Commission's baseline study has added a considerable amount to the knowledge of all of us. We are grateful the Commission has performed the study. We hope the Commission will monitor the situation in the future. We do not now have information to allege "dumping."

The equipment business I refer to is in excess of $8 billion a year. Most of that domestic business -- at this time -- goes to Western Electric Company, GTE Automatic Electric and GTE Lenkurt. We would be rash to assume that the situation will always be so, given the recent history of radio and television receivers, textiles, shoes, motorcyles, and many other products.

Since the Carterfone decision of the Federal Communications Commission a decade ago, the equipment field has been opened to what the FCC has come to call "competition." The word "competition" appears at this late date not to have an agreed-on definition. The proposed rewrite of the Communications Act, H.R. 13015, uses the term without definition. This proposal contains a 4-line provision which would require the divestiture of Western Electric Company and perhaps Automatic Electric and Lenkurt; the actual conditions under which the divestitures must come about are at this point murky, given the very simplistic language of Section 333. As the International Trade Commission is aware, the Department of Justice has asked the divestiture of Western Electric Company as part of the relief sought in its anti-trust suit. We continue to question whether a newly independent Western Electric Company

would be allowed to compete in the marketplace, since it is so large. With rare exceptions, Western Electric only has 2 customers: the Bell System and the U. S. Government. As I understand the A. T. & T. policy, Western Electric declines to sell its wares in the open market becuase of the 1956 consent decree and the corporate desire to avoid further anti-trust actions. I have read and seen arguments whose burden is that the consent decree does not specifically bar Western Electric from offering its wares to all comers. I assume this issue will shake out in my lifetime.

At the time of the Carterfone decision, there were only 6 significant manufacturers of telephone equipment located in the United States -- Western Electric, Automatic Electric, Lenkurt, ITT, Stromberg-Carlson and North Electric. Since Carterfone, a number of major foreign multinational corporations have entered the United States market. These companies include Ericsson of Sweden, Northern Telecom of Canada, Plessey of Great Britain, Siemens of Germany, Nippon, Iwatsu, Fujitsu, Hitachi and Oki of Japan.

From 1975 through 1978, the Federal Communications Commission issued 3 Report and Order documents and a Memorandum Opinion and Order, all in the Docket 19528 proceedings on the interconnection of various kinds of terminal equipment to the telephone network. In acting, the FCC created Part 68 of its

Rules and Regulations, to cover many of the aspects of the equipment registration program that has flowed from the Carterfone decision of 1968.

We hope the Customs Service, which has inspection personnel, will watch to see that communications equipment will meet the standards set by the FCC Docket 19528 program. We do not believe the FCC currently has the personnel to provide enforcement to its rules. Equipment not meeting the Part 68 technical standards could enter the domestic marketplace, given the somewhat unclear means of enforcement.

It is worth noting here that the FCC equipment registration program does not provide that any item of equipment must operate as designed. The Commission some time early in its proceedings took the position that it would not get itself into the consumer protection business. It decided simply that the certification would mean only that the equipment in question would not cause harm to the switched telephone network. In a way, the certification program is analogous to that of Underwriters' Laboratories regarding electrical devices.

Previously I mentioned that hard and definite numbers have been most difficult to obtain. Since August 1976, I have queried the former Office of Telecommunications of the Department of Commerce; the Bureau of the Census, at Suitland; the former Office of Telecommunications Policy; the New York office of the U. S. Customs Service; this Commission; the Bureau of International Labor Affairs of the Department of Labor; and the Federal Trade Commission. In addition, I have queried Professor

Ithiel de Sola Pool of Massachusetts Institute of Technology and Professor James McKenney of Harvard School of Business. Professors Pool and McKenney in January 1975 completed their report entitled "Domestic Employment Effects of Foreign Direct Investment in the Electronics Industry," for the Department of Labor.

Publications on imports I have examined include "United States International Trade in Telecommunications Equipment," issued by OTP in February 1977, and "An Analysis of Domestic and Foreign PABX Markets," a contractor study done for the Office of Telecommunications in Commerce, issued in April 1976. I have interviewed Dr. Paul Polishuk, former assistant director of Commerce's Office of Telecommunications and Donald Dittberner, who did the 1976 OT contractor study. In Annex A, we have included several pertinent pages from the OT contractor study of Mr. Dittberner.

In Annex B, we include several sets of questions for which we have tried to gather pertinent and specific information on the imports situation.

The information on imports collected by the U. S. Government has been inadequate. When we attempted to get more specific information in an inquiry to Commerce Secretary Juanita Kreps, we were informed by a letter from Census Director Manuel Plotkin that the kind of information we wanted was exempt from disclosure

by law. In following up this matter, both at Census and at this Commission, I learned that there have been some difficulties in categorization of various items of equipment, difficulties caused in great part by technological advances and the understanding thereof by government personnel. Similarly, the Federal Trade Commission's "Line of Business" information is restricted.

Besides better categories, another area of information which has been lacking is numbers of units being imported and the dollar values on the market. We want to know who gets this equipment; we want to know who gets imported parts for rapid and low-labor-intensity assembly in domestic plants; we want to know the trade names and if imported items do in fact bear nation-of-origin labeling; we want to see nation-of-origin labeling on equipment made of foreign parts but assembled in domestically based plants. We do not want to see the words "manufactured in U. S. A." having a meaning other than actually produced in this country. As this Commission knows, CWA in March filed a petition for rulemaking at the FCC, to require the nation-of-origin labeling under the Commission's Part 68 rules on equipment registration. After ignoring the CWA petition for 8 weeks, and being cajoled several times, the FCC finally gave us the courtesy of a response -- which was negative. The labeling requirements we had in mind would be consistent with, but more stringent than those imposed by 19 USC 1304 and 16 CFR 15.207, the latter an advisory opinion of the Federal Trade Commission

on the use of imported parts in domestic assembly operations and the improper use of "Made in USA" as a label.

We intend to continue to monitor importation of communications equipment, since we cannot be assured in any way that the manufacture thereof will not follow radio and television receivers and a host of other items to places outside the United States. We believe the U. S. Government must be prepared soon to step in very soon and impose the same kind of port of entry restrictions that are used by other countries, under so many variations.

The data in the Commission's preliminary report tables show imports are indeed heading upward. In our analysis, some of the tables appear to be conveying inconsistent information, which is explained by unreliable source material.

We know that some telephone companies have been buying imported equipment. We are not attempting to say that all telephone companies use only U. S.-made equipment; we also are not trying to say that all interconnect companies use only imported equipment.

Table 1 shows U. S. shipments of terminal and switching equipment; since these figures have been compiled by this Commission, the 1976 and 1977 figures are reliable. We see $439.3 million in 1976 and $584.5 million in 1977, representing an increase of about 33%. This table shows the "non-captive" market, that is excluding the Western Electric and Automatic Electric business within the Bell System and General System, respectively. We are informed that the "interconnect" business,

the telephone equipment competitor, is included in these figures. Imports and domestic production figures are included in these figures.

If we project on a 30% annual increase for 1978, 1979 and 1980, we then find the shipment totals in the "non-captive" market would be in the area of $760 million, $985 million and $1.25 billion, respectively.

Figures of those magnitudes obviously have significant employment implications. Our Union has been informed by Bell System management that the 1978 business forecast now appears likely to fall short by one-half million telephone stations. We do not know if this downward revision of the 1978 forecast means (1) that the one-half million new stations failed to materialize; or (2) that the one-half million new stations were provided by competitors; or (3) some combination of (1) and (2).

Table 2 also gives ITC survey figures on U. S. shipments of equipment to other than common carriers. From our inquiries, we find that most of the $204.9 million in 1976 and $309.4 million in 1977 is in the "interconnect" market. Again, imports are included in these figures.

The increase from 1976 to 1977 is $104.5 million, or 51%, in what we can call the "non-captive" market.

From Table 6, we derive the imports figures on the same items of equipment, with a total of $127.6 million as the "ex-factory" value plus CIF. I very cautiously will note that this $127.6 million of imports value could represent 41% of the "non-captive" market.

Because of the confidentiality rules here at this Commission, we are unable to line up squarely the data of Tables 2 and 6. (We would request the Commission to do this.)

That 51% increase in shipments in Table 2 may or may not be a solid trend. If we can project a 50% annual increase for 1978 to 1980, we would have totals for those years reaching approximately $460 million, $690 million and $1.035 billion, respectively. If we are more conservative, and apply only a 25% annual increase for 1978-80, we would have totals of around $360 million, $450 million and $560 million, respectively.

Whichever way we project, these figures become significant in GNP and employment aspects.

Tables 3 to 5, inclusive, are based on Census data. We do not believe the figures are reliable, because of problems in categorizing and reporting. For a single example, please note the 1977 exports total on Table 4, which is shown as $256.1 million. This figure does not reconcile with the "hard" data furnished to this Commission in this baseline study, as shown on Table 13 for exports, at $67.7 million.

This Commission's staff looked at those Census exports figures with concern because of the wide variance. We are informed that the exports figures reported by Census in all probability include many items not correctly includible in the SIC 3661 code and TSUSA 684.62 and 724.9 schedules.

The 1977 imports totals, set forth on Table 4 at $128.7 million, appear close to the Table 6 total of $127.6 million in "hard" data secured by this Commission. However, the Table 4

total of $128.7 million includes more than the telephone equipment at issue in this inquiry. The Census data figures seem to be understated by about $22 million.

In Annex C to this testimony, we adapt and project from the Table 4 imports figures, since we have secured Census figures on the first 6 months of 1978 in several subcategories. If the Census figures are correct, then we see the sharp increase of $57.1 million on a full-year basis, or 53%.

Table 6 shows imports of telephone equipment, generically stated, as $87 million for 1976 and $127.6 million for 1977; these are "hard" figures derived by the Commission from its current baseline stud . The $40.6 million increase is about 47%.

By projecting at a 47% annual increase we would have imports reaching $187 million for 1978; $275 million in 1979; and $404 million in 1980, We are more comfortable in projecting at a 25% increase, which would mean $162 million in 1978; $202 million in 1979; and $253 million in 1980.

These imports figures are the values of the goods ex-factory plus CIF, as secured by this Commission in response to the industry questionnaire. The actual market value can be 3 to 4 times these Commission imports values, according to an estimate expressed by Donald L. Dittberner in 1977. Mr. Dittberner and his organization performed the Office of Telecommunications contractor study in 1975 on the domestic and foreign PABX markets.

Although we have expressed some concern over the reliability of portions of Table 4, we still are able to note that Census has reported some significant increases - over 50% - in imported telephone equipment for the first 6 months of 1978 in 3 sub-categories. Annex C explores some of the trends and the cause of our concerns thereon.

Tables 7 to 10 are based on Department of Commerce statistics; they are expansions of the information on imports shown in Table 4. Once again, it is necessary to refer to the CWA comments on Tables 4 and 6 and our Annex C.

Overall, we import primarily from Canada and Japan.

Table 11 shows that relatively minor amounts of telephone equipment are afforded Section 806.30 treatment.

Table 12 shows that Section 807-treatment goods came to $11.9 million, with about $8 million value-added outside the United States.

Table 13 gives "hard" Commission data on exports of telephone equipment, generically considered, on the same basis as in Table 5 for imports. We find $67.7 million in exports in 1977, a sharp discrepancy from the $256.1 million shown on Table 4.

The exports in 1976 and 1977 indicate an increase of 9.6% in dollar value. We are unable to determine how much of the 9.6% can be ascribed to inflation.

However, if we project on a 10% annual increase in export values, we would have about $74.5 million in 1978; $82 million in 1979; and $90.2 million in 1980.

We have to agree with the findings of the February 1977 Interagency Committee on International Telecommunications Trade, which explored the problems affecting the competitive environment for United States telecommunications goods exports. A key problem, stated on preface page v, is: "Collaboration between foreign governments and their telecommunications equipment industries handicaps the efforts of U. S. equipment manufacturers competing for sales both within these countries and in third-country markets."

CWA's position is that the United States must either secure some real changes and concessions from other nations or see our domestic industry involved in the continued one-way --- inward-bound --- trading.

The preliminary report of this Commission lists a number of the open trade barriers in other countries on our telecommunications goods, especially at Table 27. The effects of those barriers in other nations show up in the information in Tables 24A, 28 and 29.

Tables 14 to 17, dealing with exports by geographic area, are in our view unreliable because of the overstated dollar volumes, which do not reconcile with Table 13 figures as learned by this Commission.

Tables 18 and 18A deal with employment and training in 1972, 1976 and 1977. We are informed these figures include Western Electric, Automatic Electric and the numerous other firms involved in production of equipment. These figures include those engaged in "manufacturing" operations --- that is,

the assembly in domestic plants of foreign-made parts.

We believe these charts would be more useful if a detailed breakout could be provided to us. We hope the Commissioners are in possession of such information.

Within our Union alone, we represent close to 17,000 non-supervisory employees at 8 Western Electric manufacturing plants, 14,000 in the nationwide supply and distribution bargaining unit and about 16,500 in the nationwide installation bargaining unit. Western Electric employs a total of about 151,000. Employees of 12 other Western Electric plants are represented by the International Brotherhood of Electrical Workers. Employees of one other Western Electric works are members of an independent Union, the Communications Equipment Workers.

It is necessary to add that CWA represents approximately 150,000 persons whose jobs involve the terminal equipment aspects of the telephone industry. In addition to those in the manufacturing, supply/distribution and installation divisions of Western Electric, there are the many thousands of installation and repair, business office, central office, PhoneCenter, commercial/marketing and accounting employees.

If we had more information than is contained in Table 18A, we might be able to do more than note some significance in the manufacturing total employment figures: a drop of 13,980 from 1972 to 1976, then an increase of 9,678 from 1976 to 1977. The net decrease in the 5-year period is 4,302. For production

workers, that is, those who would be represented by Unions, the 5-year net drop is 6,870, or 10.6%. Part of this drop is accounted for by the closure of 4 Western Electric plants in 1975.

This cloudy employment picture has caused our great concern in this International Trade Commission proceeding.

CWA and the IBEW have attempted, with some limited success, to organize employees within the "interconnect" industry -- the group of companies generally represented by the North American Telephone Association. In mid-1976, we found that we represented about 480 employees of 42 "interconnect" companies. A Business Week article in the May 1, 1978 issue stated: "Of the 30,000 workers employed by interconnect companies at the end of 1977, 4,154 belonged to the IBEW and only 948 to the CWA, says the industry's trade group, the North American Telephone Association." Our most current (September 1978) figures show that we represent 741 --- perhaps 75 to 100 more --- under 65 contracts.

Tables 19 to 21 give breakdowns of employment in the common carrier telephone industry, that is, excluding the "interconnect" and related companies.

In Table 22, the onrush of technology in great part explains the 1972 to 1977 productivity improvements --- 138.2 and 170.2 telephones per employee, respectively.

Table 24A notes that 80.1% of the world's telephones, outside the United States, are government-owned. We have seen from the Interagency Committee report cited earlier that there is in many nations a very close integration and coordination between the government-owned telephone systems and the domestic equipment industries. We see this situation as a key retardant factor against our American industries' ability to export.

We consider Tables 28 and 29 together to show for 1974 the limited import penetration and low dollar volumes of U. S.--produced goods in a number of other nations which are among our major trading partners. We do not believe the situation has improved much in the last 4 years.

Below is a side-by-side exports and imports chart for 1974, for selected countries. The exports figures come from this Commission's Table 29, which originated in the Bureau of the Census. The imports figures come from the IA-245 report for 1974, produced by the Bureau of the Cenus. We use these figures with the same caveat as applied to other Commerce and Census data, that is, the strong possibility of sizeable error.

	Exports to:	Imports from:
Germany	$1.1 million	$1.8 million
Japan	2.449 "	55.16 "
Brazil	.535 "	1.62 "
Italy	1.9 "	1.96 "
Australia	1.6 "	.18 "
Mexico	2.8 "	5.13 "
South Africa	.440 "	.003 "
Taiwan	.575 "	1.117 "

The Commission's staff personnel assigned to this inquiry, particularly your colleagues, Messrs. Graves and Fletcher and Ms. Schill, have been most helpful and gracious. We believe it fitting to recognize a lot of hard work.

We are grateful to the Commission for instituting this baseline study, which we see as the beginning of the monitoring process so that "hard" data will be provided from here on out. We may be in the early days of a major shift of production from the United States for telephone equipment. We hope no one in government seriously considers such an eventuality to be sound public policy.

Annex A to CWA Testimony.

(These pages are reproduced from OT Contractor Study 76-4, "An Analysis of Domestic and Foreign PABX Markets," submitted by Dittberner Associates, April 1976.)

4. U.S. PABX Imports--Market Shares

Table II-4 converts the line requirements of the major market users of PABX equipment to dollar equivalent showing their cumulative import requirements for the years 1971-1975. This data was extracted and compiled from several tables contained in Chapter V of this report.

The significant findings show that the Bell System imported 17% of the total dollar value of PABX imports during this time frame, independent telephone companies 18% of the total imported PABX dollars and the interconnect companies 65% of the import volume. On a dollar level, the interconnect accounted for $120 million of the $185 million imported with the Bell System and independent telephone companies equally sharing approximately $65 million of imported PABX equipment.

5. Balance of Trade--PABX

Based upon the extensive interview program with manufacturers and users of PABX equipment, Dittberner Associates, Inc. developed the following table covering import and export activity for the years 1971 through 1974. Since the Federal Government statistics do not specifically break out PABX equipment in a meaningful manner for this report, we have included some judgemental factors to the basic information provided by the U.S. manufacturers and users of PABX equipment to obtain U.S. totals.

In Table II-5 our analysis shows that imports grew from $29.0 million in 1971 to $62.2 million in 1973 and then dropped in 1974 to $46.5 million. During this same time frame, U.S. manufacturers indicated to the Dittberner Associates' staff that their export contributed only a small sum in terms of dollar volumes amounting to an estimated $3 million annually during 1971 and 1972, doubling to $7.5 million in 1973 and increasing to $12.8 million in 1974.

Table II-5 shows that the net balance of exports versus imports

TABLE II-4

U.S. PABX IMPORTS

BY MAJOR MARKET SHARES

1971-1975 (Cumulative)

(000)

	Imports 1971-1975	% of Imports
Bell System Co.	$32,000	17%
Independent Tel. Co.	33,000	18%
Interconnect Co.'s	120,500	65%
TOTAL	$185,500	100%

Source: Summary from Chapter V.

TABLE II-5

U.S. BALANCE OF TRADE
PABX SYSTEMS ONLY
($ Millions)

Year	Imports	Exports	Net Balance
1971	$29.0	$3.0	-$26.0
1972	47.8	3 0	-$44.8
1973	62.2	[illegible].5	-$54.7
1974	46.5	12.8	-$33.7

Source: Dittberner Associates, Inc. estimate based upon U.S. and foreign manufacturers' interviews.

indicated a negative balance of trade accounting for $26 million in 1971 growing to $54.7 million in 1973 and falling off during 1974 to $33.7 million.

It is significant to note that during 1973 major structural shifts developed in the U.S. PABX market with the introduction of PABX equipment manufactured by Northern Electric of Canada in the United States under the U.S. subsidiary Northern Telecom Inc. This change-over also coincided with the development of plant facilities by Hitachi in Doraville, Georgia, an expansion of the Oki plant in Fort Lauderdale, Florida, and the opening of a Nippon Electric facility in California. Thus, PABX equipment which had been imported during the 1971-1973 time frame by these same corporations began exhibiting "Made in U.S.A." tags with 51% of the end product having a value-added in the United States. This shift in the structural process has led to an expansion of U.S.-based manufacturers of PABX equipment and a resulting decline in the import value of the same commodity (excluding repatriation flows).

6. Projected--U.S. Balance of Trade

Dittberner Associates, Inc. staff developed Table II-6 as the result of the interview program with manufacturers of PABX equipment in the United States and, based upon these discussions, developed potential export forecasts accompanied by import requirements to show the net change taking place in the balance of trade items. A number of judgemental factors were used in developing the back-up tables for imports, which are explained in Chapter V of this report.

As the table shows, Dittberner Associates, Inc. predicts a negative balance of imports over exports for the year 1975 accounting for a $10.5 million deficit, however, by 1978, we anticipate that the U.S. export market will make dramatic increases causing a positive flow of exports over imports for the ensuing time frame through 1984. Our statistics take into consideration the changing structures, both in terms of manufacturers and technology developments currently underway in the United States and their potential impact on world markets. We anticipate that imports will grow through 1981, but that exports will grow at a much faster rate. While imports

TABLE II-7

STRUCTURAL CHANGES U.S. PABX MANUFACTURING

1971-1975

U.S. PABX (1) Manufacturers 1971	Additional U.S. PABX (1) Manufacturers 1975	Foreign PABX Manufacturers(2) in U.S. 1975	Prime Foreign Suppliers(3) to U.S. Market 1975
Western Electric	Philco-Ford	Northern Telecom	Ericsson
Automatic Electric	R.C.A.	Oki	NEC
I.T.T.	Danray Corp.	Hitachi	
Stromberg-Carlson	Rolm Corp.	Siemens (1976)	
North Electric	Digital Tel. Co.		
	Commex		
	Tele-Resources		
	Wescom		
	Chestel		
	Control Networks		
	Teleplex		

1. Some percentage of foreign components included--unidentified.
2. Over 51% value added in U.S.
3. Foreign imports, less than 50% value added in U.S.

standard" equipments.

The major losses by captive supplier organizations which are known include:

- The sale by Hitachi to GTE of a number of PABX systems.
- The sale of PABX systems to Continental Telephone and the later acquisition of Control Networks by Continental Telephone.
- The sales by Oki to a number of individual independent telephone operating companies in the United States from their Oki America facility in Florida. The largest of these was 53 PABX's sold to Rochester Telephone Co.
- The sale by Stromberg-Carlson to a sizeable number of independent telephone operating companies of their ESC Electronic System PABX.

It is important to recognize that not only does the Bell System have a captive manufacturer, Western Electric, but also that the larger independent telephone operating companies have captive manufacturers for a variety of telecommunications equipment, including PABX's. Specifically, General Telephone & Electronics has Automatic Electric and Sylvania,* both of which manufacture PABX's for GT&E, and for other independent telephone operating companies. Further, as indicated above, Continental Telephone recently acquired Control Networks of Chicago, which manufactures an all-electronic PABX. United Telecom is the parent company of North Electric Manufacturing Company, a central office and PABX manufacturer.**

* Sylvania's contribution is a 4-wire Electronic Tandem Switching System (ETSS) which can additionally provide 2-wire PABX service.

** In 1978, ITT purchased North Electric from United.

D. INTERCONNECT DISTRIBUTORS/USERS

This market segment is served in a variety of ways. Some PABX manufacturers sell directly through their own marketing organizations to end users of PABX systems. Manufacturers of this nature include ITT, Stromberg-Carlson Communications, Danray, etc. However, the large majority of the manufacturers sell either exclusively through distributor organizations, or through distributors in addition to their own marketing force. Hence, the majority of PABX sales to the interconnect market are made by either Stromberg-Carlson Communications, selling a variety of PABX systems including those of Stromberg-Carlson, or through independent local distributors who are likely to handle a large range of PABX manufacturers' products.

Thus, in the interconnect market, there are few truly "large" sales which are made, even to distributors, since distributors typically buy equipment more or less one-at-a-time as individual sales are made to end-users. Only a few cases exist which might be considered large sales in the interconnect market segment. These are the cases where major hotel/motel chains have made commitments to procure equipment from affiliated manufacturer or distributor.

Specifically, the following cases may be mentioned:

- Procurement by several hotels of the Sheraton Chain of their parent company ITT-manufactured PABX systems (largely TE-400).
- Purchase by both company-owned and franchise Holiday Inns of Hitachi equipment from the Teleci Corporation, which was a subsidiary of Holiday Inns.
- The procurement of a large amount of Nippon and Hitachi equipment for the American Motor Inns motel chain, undertaken through a subsidiary distributor of American Motor Inn known as Universal Communication Systems (UCS).

- Sale by RCA of PABX systems initially of Hitachi and Oki crossbar vintage to affiliated hotel and automobile rental chains.

In addition to these major procurements by hotel chains, one could categorize the major users of interconnect equipment into the following major categories in order to develop common reasons for the acceptance of foreign-made PABX systems during this period. These industry categories include:

- Automobile dealers
- Lawyers and Accountants
- Hospitals
- Corporate Headquarters of smaller firms

IV

STRUCTURE OF EXPORT MARKET

The purpose of this section is to highlight the basic problems and opportunities facing U. S. manufacturers of PABX equipment who are considering entering the export market. It is beyond the scope of this study to detail all of the problems or opportunities, and this section is designed as a basic exposure to the three most prominent aspects of international trade in the PABX equipment field.

A. PTT ADMINISTRATIONS (Governmental Departments or Ministry)

In most countries of the world, with some exceptions like the United States, the PTT (Post, Telegraph and Telephone) administrations control the mail and voice communications within the country. The PTT administrations are normally structured so that there are separate organizations involved in mail and in telephone services. However, revenues are normally shared in a general funding manner, with expenses likewise allocated to each of the organizations within the administration. Thus, in most countries, revenues from the telephone service are frequently used to offset losses incurred by the domestic and international mail service. This sharing of expenses has been an extremely high drain in countries during recent years, with increased labor costs and expansion of the mail service with growing suburban environments. The end result of this shared revenue and expense allocation is that in many countries the PTT's are extremely restricted in procuring new telephone equipment, and slow in bringing the level of service to a high degree of efficiency.

While there is no universal policy for PTT administrations, the most frequently observed goals and policies include the following:

- Close control over all equipment purchases
- Dedication to domestic production
- Dedication to a full employment policy

- Five-year planning cycles.
- Higher ratio of telephones per capita desired (POTS)*
- Lower requirements for advanced switching systems in the near-term future due to financial problems.
- Tendency to provide only small PABX's, with larger ones supplied by the user.

The policies of the PTT administrations, as outlined above, provide some guidelines towards a breakout of two distinct types of export markets--normally referred to as "closed border countries" and "open border countries." In "closed border countries" little export opportunities exist, and these are primarily for ancilliary equipment or components not provided by the domestic production. This category includes most of the European countries, Canada, Japan, Mexico and other developed countries. In some of the "closed border countries," domestic production does not exist, but the telephone system is so heavily dominated by local plant of a foreign supplier that little or any opportunity exists for additional suppliers to break into the marketplace.

The "open border countries" are more likely to follow the patterns of the so-called emerging nations, the "third world" countries and the nouveau-riche oil kingdoms. The injection of high cash flows, with accompaying high per capita income, created an almost instant demand for better communication systems. Most administrations are highly desirous of achieving a level of advanced communications of the quality found in the United States. Typically, these are the countries that are located in the Middle East, Far East, and South America. Many of these countries' new leaders are completely dissatisfied with the dominance of the manufacturing facilities and control over the communication system provided by earlier colonial groups. Thus, some nationalization has occurred in the countries of South America, but opportunities are emerging for new manufacturers to enter the marketplace.

Probably the most significant trend presently underway in the export market is for countries to require some domestic production. Since the countri

*POTS - Plain Old Telephone Service meaning a black, rotary telephone.

Annex B-1 to CWA Testimony

Communications Workers of America November, 1977

QUESTIONS ON IMPORTS

1. Although the International Trade Commission has made several responses to Congressional inquiries about the telephone equipment imports situation, the information has been of limited utility. What are the bases of dollar values stated? Can the Trade Commission determine the relationship between tariff value and market value? If not, why not?

2. Chairman Minchew's letter of August 9, 1977, to Chairman Van Deerlin stated that "Data on domestic shipments, exports and imports of telephone terminals are not separately available in the official statistics of the U.S. Government. A detailed survey of manufacturers, importers, and users would be necessary to obtain the data requested." What prevents the Commission, in conjunction (if necessary) with the Bureau of the Census and the Customs Service, from launching such a survey?

3. Which foreign companies export telephone equipment, sub-assemblies and parts to the United States? What are the pertinent tariff valuations for 1976?

4. What are the tariff and other port-of-entry treatments of telephone equipment and parts thereof, when United States-produced goods are exported to the following nations: Japan, Taiwan, Singapore, Korea, Sweden, Germany, Belgium, France and Spain?

Annex B-2 to CWA Testimony

Questions of CWA President Watts, May 23, 1977, to Commerce Secretary Kreps.

a. What detailed qualitative and quantitative information exists on the importation of completed telephone equipment units (usually in SIC 3661)?

b. What detailed qualitative and quantitative information exists on the importation of parts and/or subassemblies, to be assembled into complete units in plants located in the United States?

c. Which assembly plants, located where, are engaged in use of parts and/or subassemblies as described above?

d. To what extent do the telephone companies purchase, use and assemble foreign-made parts or units?

We are reliably informed that foreign-produced parts imported for assembly in plants located in the United States lose their identity as foreign after the addition of a minimal labor increment. Such goods then become "domestic production." We will appreciate clarification, which can be supplied by your office.

Annex B-3 to CWA Testimony

Questions of Rep. Newton I. Steers, August 8, 1977, to Chairman Minchew.

(1) What is the point of origin of the terminal equipment being imported into the United States?

(2) What other information has the Commission recently been able to obtain regarding the importation of foreign communications equipment into the U.S.?

(3) Is it or is it not true that the price charged in the U.S. for imported equipment or unassembled parts is lower than the manufacturers' domestic costs would warrant?

(4) What specific tariff or non-tariff barriers does American-made communications equipment have to overcome as it is imported abroad (broken down by country)?

Annex B-4 to CWA Testimony

Questions of Rep. Barbara Mikulski, May 23, 1977, to Chairman Minchew

a. What detailed qualitative and quantitative information exists on the importation of completed telephone equipment units (usually in SIC 3661)?

b. What detailed qualitative and quantitative information exists on the importation of parts and/or subassemblies, to be assembled into complete units in plants located in the United States?

c. Which assembly plants, located where, are engaged in use of parts and/or subassemblies as described above?

d. To what extent to the telephone companies purchase, use and assemble foreign-made parts or units?

e. What are the disparities of tariff and other treatment in Sweden, Germany, Japan, Taiwan, Korea and Singapore? (That is, to what degree do those nations erect barriers to United States exportation of comparable telecommunications goods?)

f. What are the Commission's recommendations to secure equity of treatment at port-of-entry?

U.S. International Trade Commission Questions (Annex B-5 to CWA Testimony)

TELEPHONE TERMINAL AND SWITCHING EQUIPMENT

PRELIMINARY OUTLINE OF FINAL REPORT

A. Definition, description and uses, technology, and FCC actions

B. Manufacturers, importers and users
   1. Manufacturers
      a. Domestic
         1. U.S.-owned
         2. Foreign-owned
      b. Foreign
   2. Importers
   3. Users

C. U.S. Production
   1. U.S.-owned firms
      a. Captive
      b. Free market
   2. Foreign-owned firms
      a. Captive
      b. Free market

D. U.S. Inventory
   1. U.S.-owned firms
      a. Producers
      b. Importers
   2. Foreign-owned
      a. Producers
      b. Importers

E. U.S. Shipments
   1. U.S.-owned firms
      a. Producers
      b. Importers
   2. Foreign-owned firms

F. U.S. Exports
   1. U.S.-owned firms
      a. Related transactions
      b. Arms length transactions
   2. Foreign-owned firms

G. U.S. Imports
   1. U.S.-owned firms
      a. Producers
         1. Related transactions
         2. Arms length transactions
      b. Importers
   2. Foreign-owned
      a. Producers
         1. Related transactions
         2. Arms length transactions
      b. Importers

Communications Workers of America
AFL-CIO

1925 K Street, N W
Washington, D C 20006
202/785-6710

Glenn E Watts
President

File: 3.2.5

May 9, 1983

The Honorable Robert E. Lighthizer
Office of U.S. Trade Representative
Washington, D.C. 20506

Dear Mr. Ambassador:

This is to respond to your request for advice on the future of the procurement agreement covering Nippon Telegraph & Telephone Public Corporation. I am providing copies of a staff memorandum and written testimony from 1980 through 1983.

We are most disappointed at the lack of commercial opportunity afforded American companies under the agreement. The enclosed materials explore the matter in depth. We would welcome the opportunity to work with you on this matter.

Sincerely,

Glenn E. Watts
President

Enclosure

Communications
Workers of America
AFL-CIO

1925 K Street, N.W.
Washington, D.C. 20006
202/785-6700

File: 3.2.5

May 9, 1983

To: Glenn E. Watts, President

From: John Morgan, Assistant to Executive Vice President
Legislation/Government Agencies

Subject: NTT Procurement -- USTR Request

We were asked by Deputy USTR Robert Lighthizer to provide materials on the NTT Procurement situation. The agreement is under review between USTR and its Japanese Government counterparts, since it expires at the end of 1983. The question is whether to renew.

Officials of our Government (USTR and Commerce) have been using the word "failure" in connection with the current procurement agreement, because the performance has been microscopic ($17.6 million in FY 1981 and $35.2 million in FY 1982 of total foreign purchases). United States bidders' business in those years totaled $15.2 million and $28.0 million, respectively. Total NTT procurement in those years was 6.2 billion.

For the future, the Electronic Industries Association has suggested some kind of "quota system," in purchases; this came in the March 10 testimony of John Sodolski, EIA Vice President. A "quota system" bears many flaws, as we have seen in Title VII, delegate selection and other matters.

Ambassador Lighthizer asked for our advice on renewing the NTT agreement. Since the current agreement has not been effective, the United States has little incentive to renew. American companies without an NTT procurement agreement still will be able to do business with Japan. Allowing the agreements must be observed in spirit and performance as well as cosmetically, i.e., on paper. USTR personnel note that the Japanese have complied on paper with the agreement. We can agree in part.

The Japanese are certainly quite aware of the advice given by former USTR Reubin O'D. Askew to his counterpart, Dr. Saburo Okita, in the "Dear Saburo" letter, which was transmitted in December 1980 with the formal U.S. documents. Ambassador Askew noted to Dr. Okita that the judgment of the NTT agreement would be based on the actual performace, and pointed out the very

strong pressure against the agreement from both industry and labor sides in the United States.

While NTT and the Japanese Government were aware of the shape of the final agreement from early 1980, they did not see fit to issue the standards for procurement under "Tracks II and III" until mid-1981, nearly six months into the agreement. NTT required all bids to be in Japanese, which is not a GATT language. To this date, there does not exist an official English translation of the procurement rules; NTT recently announced it would accept tenders in English at the NTT New York office and make several other changes to liberalize the process. The foregoing tells us several things: first, that the sincerity of NTT can be called into question, and second, that NTT is tacitly admitting that its practices since Janauary 1981 did prove anti-competitive. For a single example, NTT's Spring 1983 bulletin says "NTT contract conditions, based on the Japanese practice of commerce, will be amended to the international requirements."

Currently, several American companies are in a protracted process of waiting for the Japanese to decide whether to buy some advanced technology items. It is reasonable to believe these pending matters are being used by NTT as the prod to U.S. trade negotiators to renew the NTT agreement. Certainly our USTR people are intelligent enough to see through this scheme.

Several of us have spent much of our time and resources since 1978 on the NTT procurement matter. We have seen the flaws which prevent the NTT agreement from being more than a cosmetic treatment of an issue in which mutual trust is required.

Even when the acceptance was inevitable, in December 1980, you asked USTR to establish a joint Government-Industry-Labor monitoring committee, which would serve to keep pressure on NTT to comply in spirit. In February 1981, your letter was finally answered, and your proposal was curtly rejected.

The world will not end, nor will U.S.-Japan relationships go sour, if the NTT agreement is allowed to lapse. The Japanese will benefit from the lesson under which the United States shows it wants adherence to agreements. In overall procurement, the United States has been buying significantly larger amounts of foreign goods than it sells, according to preliminary figures shown the advisory committee last month.

Clearly, government procurement is not very politically palatable in Japan, EC and Canada. The United States should withdraw from the GATT Code, in addition to the NTT agreement. Other nations take the position that the procurement code "intrudes into soverign rights"; this is merely a polite way of maintaining a protectionist policy.

No one has come forth to build any kind of credible case on behalf of renewal of the NTT agreement. Japanese agents are out and about, hinting at apocalyptic events which would result in failure to renew. The Japanese will not retaliate because they cannot without igniting massive anti-Japan feelings in this country.

Our position is that the agreement cannot be made acceptable merely by amendment, but only by substitution in such form as to be of dubious acceptability by the Japanese. For specifics, my testimony before the Wirth Subcommittee in June 1981 points up the weak spots. Finally, we have a cablegram from Ambassador Mike Mansfield noting that NTT may be breaking up in much the same form as AT&T; Mansfield noted that significantly reduced coverage under the procurement agreement would result.

Communications Workers of America
AFL-CIO
1925 K Street N.W.
Washington D.C. 20006
202/785-6710
Glenn E. Watts
President

File: 3.1
x6.

January 13, 1982

The Honorable William E. Brock
United States Trade Representative
1800 G Street, N. W.
Washington, D. C. 20506

Dear Mr. Ambassador:

This is to ask that you maintain a strong degree of pressure on your counterparts within the Government of Japan over the current problems involving the lightguide (fibre-optic) cable between Moseley, Virginia, and Cambridge, Massachusetts. The cable project is the subject of two applications filed by American Telephone & Telegraph Co. before the Federal Communications Commission (File Nos. W-P-C-3071 and W-P-C-4173).

The Wall Street Journal of October 19 reported that AT&T appeared ready to award a procurement contract for the second project phase to Fujitsu, one of the major Japanese electronic companies. This report evoked a storm of major protest, expecially from the Congress.

The American law firm representing Fujitsu has filed with the Commission an extensive "Petition to Deny" the AT&T application for the second phase, in which American goods would be used. The Fujitsu Petition to Deny relies very heavily on the Agreement signed December 19, 1980 by your predecessor, Governor Reubin O'D. Askew, and his Japanese counterpart, Dr. Saburo Okita. This 1980 Agreement, to which we unsuccessfully registered a strong protest, was perceived by us as one in which the interests of the United States and the principles of comity in international trade would be thoroughly disserved. Today, we are even more thoroughly persuaded that our view was correct.

The agents for Fujitsu are attempting to insist that the December 1980 Agreement be honored, while at the same time the Government of Japan has not shown itself to be concerned about honoring that same agreement when the Government Procurement Code is to be applied to Nippon Telegraph & Telephone Public Corporation. The Japanese Government has actively involved itself in the current FCC proceeding, as shown by its entering a strong letter of protest on Fujitsu's behalf in the Commission's case file.

Mr. Ambassador, it is a fact that NTT was in no way prompt in issuing its standards for the alleged "open procurement" policies to which it was committed. The standards became available in late June, nearly six months into the three-year agreement between our Governments. Today, a year after the Agreement went into effect, we are aware of only two very tiny procurements by NTT.

We expressed deep skepticism about the Agreement, to which Governor Askew pointed in one of his responses to me. On February 9, 1981, Ambassador Robert D. Hormats pledged that your office "... will actively monitor Japanese compliance with the Agreement." (Copy of letter enclosed)

We see the current situation involving Fujitsu as a good starting point for the active monitoring and compliance-ensuring process. I ask that this matter be pressed by your office without delay, and that you encourage the Commission to reject the Fujitsu petition.

Counsel for Fujitsu --- including a former FCC Chairman and two key officials of the FCC's Common Carrier Bureau --- are pressing the Commission to order AT&T to buy the Japanese goods. Counsel certainly should know the law better, since at present the Commission does not possess the legal authority to make decisions which are uniquely those of the management of AT&T. Counsel for Fujitsu is surely aware that the Commission currently has pending a proceeding (CC Docket 80-53) on the procurement procedures of AT&T, with a decision perhaps months away. Our position is that the United States Government has no power to inject itself into the management of AT&T, until such time as the company fails to live up to its mission of providing universal service to the citizens of the Nation. And no one is able to raise that contention in any credible fashion. We have communicated this position to the Commission and the Congress, which is presently considering amendment of the Communications Act of 1934.

Before Japanese companies and their Government begin pressing our Government for specific relief as in the instant situation, the Government of Japan needs to decide whether it intends to honor its end of the Agreement of December 19, 1980. For our part, we will remain skeptical, until we have seen some actual performance within the real spirit of the Agreement. The Japanese cannot expect to have only benefits, that is, increases in export-based employment, without affording the same treatment to the United States. Our country has lost far too many jobs to overseas producers; the Fujitsu matter is a further step toward jobs loss in telecommunications.

I ask that the Government Procurement Code be placed on the agenda for early discussion and review by the Advisory Committee for Trade Negotiations.

We fully support the several trade reciprocity provisions contained in S. 898, as adopted by the Senate, and in H.R. 5158, pending in the House Committee on Energy and Commerce. We are aware that certain objections have been raised over these provisions, dealing mostly with matters of jurisdiction and execution. We hope these matters can be reworked to provide for all needed authority to protect our national interest.

Some elements are attempting to dissuade you and the Administration away from following a strong position of reciprocity, in the fear that a complaint will be brought before the General Agreement on Tariffs and Trade (GATT) Secretariat. Our response is that their bluff should be called; in a GATT case, those who bring the action are required to demonstrate that they in fact adhere to the rule allegedly violated by the other party.

For our country's sake, let us "get tough" and send a strong message to those nations which over the years have been draining away American jobs. Given our massive international commitments, we must take all necessary actions to strengthen our own domestic economy.

With all good wishes for 1982, I remain,

Sincerely,

Glenn E. Watts
President

cc: The Hon. Malcolm Baldrige
The Hon. Daniel Inouye
The Hon. Timothy Wirth
The Hon. Sam Gibbons
The Hon. John Danforth

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506
202-395-5114

Glenn E. Watts
President
Communications Workers
of America
1925 K Street, NW
Washington, D.C. 20006

FEB 9 1981

Dear Mr. Watts:

Thank you for your letter to Governor Askew of December 18 concerning our agreement with Japan on the NTT/Government Procurement issue. I appreciate the time and effort you and your staff have taken in providing us with CWA's advice on this issue.

I fully understand your skepticism regarding Japan's intentions to live up to this agreement as well as your view that the agreement must be closely monitored. Let me assure you that this office will actively monitor Japanese compliance with the Agreement. Also, we will aggressively deal with any failure by Japan to meet its full obligations. It has been made clear to the Japanese that the agreement is seen as a test of our trading relationship and that we will not tolerate any infraction.

The Labor Policy Advisory Committee, as well as other interested private sector advisory committees, will play a key role in our monitoring process and will be kept fully informed of our monitoring activities. We look forward to receiving your input both directly and through the LPAC.

Sincerely,

Robert Hormats

Robert D. Hormats

4-24-84

SUMMARY OF
JOHN MORGAN
ASSISTANT TO EXECUTIVE VICE PRESIDENT -
LEGISLATION/GOVERNMENT AGENCIES
COMMUNICATIONS WORKERS OF AMERICA

Restructuring of AT&T which began in 1980 and is working its way through the recent divestiture has caused customer confusion, sizeable service order delays, massive uncertainty in tariffing, large local rate increases and Wall Street jitters.

Integral to the industry turmoil is the future of the domestic telecommunications equipment market; we are alarmed at the 1983 equipment trade figures-- $418 million in deficit, compared with the 1982 surplus of $200 million. Imports were up 93% in 1983, to $1.2 billion; exports were $790 million, down 4.2%. These figures exclude cordless telephones, no longer made in the United States.

Domestic equipment industry employment is declining; a new AT&T subsidiary intends to encourage up to 60,000 early retirements, because of declining business.

CWA is concerned about the lack of success of the government procurement agreement in telecommunications equipment, since about 93% of the world's telephones outside the United States and Canada are government-operated. The 1980 NTT agreement was a failure, which CWA predicted prior to its execution, with specific reasons given USTR. CWA opposed renewal; others were unenthusiastic about renewal. The full statement goes into detail about NTT and government procurement matters, in which the United States faces disadvantage.

Rolm Corp. makes numerous valid points supporting the need for our government to act to prevent foreign predatory practices from dominating the newly opened U.S. market. Rolm notes that divesti-

ture has "had enormous and unanticipated effects in increasing imports into the U.S. because of the RBOC activities and those of AT&T."

CWA views divestiture as an ill-considered removal of a major non-tariff barrier to imports of telecommunications equipment, without a corresponding and reciprocal increase in foreign market opportunity. If the U.S. government desires to improve American companies' access to foreign markets, it needs the leverage of control of access to this market.

Our trade policy should be one to promote domestic economic viability and employment, with defense of the manufacturing base against further losses.

We are encouraged the Commission is addressing an urgent need--- a new system of nomenclature in the TSUS. Revised nomenclature will give us a better means of monitoring trade trends.

Do we need trade legislation? We have been told the 1974 Trade Act contains adequate authority for imposing much-needed reciprocity. If so, we urge use of that authority. Any new legislation should not simply confer new negotiating authority on the President. An industry being targeted should not become a supplicant or some kind of defendant before U.S. government agencies; foreign competitors should be required to bear a burden of proof that they will not materially affect American industry.

CWA is greatly concerned that the divestiture and deregulation will have many unfortunate effects-- and that our members affected by the breakup will not be alone in feeling those effects.

4-24-84

BEFORE THE
INTERNATIONAL TRADE COMMISSION

Changes in U.S. Telecommunications Industry and Impact on U.S. Telecommunications Trade	)))	Investigation No. 332-172

STATEMENT OF JOHN MORGAN
ASSISTANT TO EXECUTIVE VICE PRESIDENT -
LEGISLATION/GOVERNMENT AGENCIES
COMMUNICATIONS WORKERS OF AMERICA

The Communications Workers of America represents more than one-half million United States citizens employed in the telecommunications industry, in services, supply/distribution and manufacturing operations. Our union has been very deeply affected --- and perhaps adversely --- by the actions of Government in the last 15 years to allow some form of "competition," deregulate and finally divest.

We all are familiar with the common cliche that competition and deregulation will lead to lower prices and wider customer options. Let us consider only 2 current examples: First, airline fares and flight options have not benefited the consumer since deregulation--unless one considers higher fares, more bumping and fewer flight choices some kind of advantage. Second, the telephone industry restructuring that began with the April 1980 decision in the Second Computer Inquiry and is working its way through the recent divestiture has caused customer confusion, sizeable service order delays, massive uncertainty in tariffing, rather large local rate increases granted and pending and Wall Street jitters.

My point is that we must be skeptical when the glibness begins flowing.

The Federal Communications Commission, the expert agency which administers the Communications Act, is awash in paper and has

convened many new docket proceedings, some of which will not be up for decision for another year. Several of these proceedings appear to overlap. One major proceeding, the "access charge" case, has produced some contradictions in FCC policy and large doses of uneasiness in the securities market.

Integral to the turmoil in the industry is the future of the domestic telecommunications equipment market --- and who supplies it. Recently we got some numbers from the Department of Commerce which must cause alarm to those involved in equipment manufacturing in the United States. In 1983, the trade in equipment fell to a deficit of $418 million, compared with the $200 million surplus in 1982. Imports of such goods in 1983 were about $1.2 billion, about 93% over the 1982 level of $626 million. Exports of the same kinds of goods were $790 million in 1983, a drop of 4.2% from the 1982 level of $829 million. Added to those imports figures --- which alarm those who want to keep a strong domestic manufacturing base in telecommunications --- are cordless telephone sets, classi-fied under radio equipment. For 1983, the numbers are 8.4 million cordless sets and $368 million in customs value, up sharply from the 1982 figures of 1.9 million sets and $107 million. We understand there no longer are domestic makers of cordless sets.

We know that domestic employment in the U.S. equipment industry is declining-- several months ago, AT&T announced about 13,000 layoffs, and last Tuesday, the company announced its intention to encourage about 60,000 more to take early retirement and other benefits, due to declining business. in AT&T's Informations Systems subsidiary. (CWA Attachment 1) Our concern stems from a basic reality of the world's telephone system: of the approximately 500

million telephones, 253 million are government-operated. If we remove the 192 million United States and 14 million Canadian telephones operated by private companies, the remainder of the world (including 2.2 million in Canada) appears to be 93% government-served. Procurement thus is conducted through government auspices. Our private United States companies are faced with the many difficulties of trying to sell via foreign governments, most of which want to protect their local industries and/or hold down development of their telephone systems.

The key example of this is Nippon Telegraph & Telephone Public Corp., which is alleged to have opened its procurement processes in the December 1980 agreement executed by the United States and Japanese governments.

We have been openly critical about the merits of that 1980 NTT agreement and the means by which it was executed. As one of the private sector advisers to the Department of Labor and the United States Trade Representative, I devoted considerable time and energy in 1979 and 1980 on that first agreement. I testified on Capitol Hill in 1980, 1981 and 1983 on the massive and up to that point ignored defects of the 1980 NTT agreement.

In 1979 and 1980, CWA and its Japanese counterpart union, Zendentsu, held several detailed discussions of the proposed NTT and government procurement agreements. Two highly contradictory positions were strongly expressed by our Japanese colleagues: first, they wanted the procurement code to be approved by both governments, and second, they flatly opposed NTT's buying any high-technology goods from American companies. They were disposed to approve of NTT's purchase of wooden utility poles and comparable

goods. Since Zendentsu does not represent manufacturing people, the purchase of foreign goods meant no job displacement in that union.

During 1983, the Office of USTR set about renegotiating the NTT agreement, which in April of last year was described as a "failure" by Commerce Under Secretary Lionel Olmer. In his testimony of March 7, 1984, Secretary Olmer appears to have trimmed his sails considerably, vaguely pointing to some opportunities in the renewed NTT agreement.

We must specifically take issue with Mr. Olmer's March 7 testimony, where he stated: "When the first agreement was concluded in 1980, the views of NTT-- and our government's expectations from the agreement --- were relatively narrow."

If one follows the advice of Al Smith, i.e., "Let's look at the record," one finds that Secretary Olmer appeared to be trying to rewrite history. The USTR press release of December 16, 1980, is written in a tone of panting superlatives; it tells that the requirements of the Government Procurement Code "... will be observed for <u>all purchases</u> by Japan's NTT, as well as for <u>purchase by all</u> of Japan's central government agencies and ministries." This statement does not reflect anything near a "narrow" view. We all have seen the tiny NTT procurement figures of $15 million in 1981, $40 million in 1982 and $140 million in 1983; the last figure appears to have been for actual delivery and sale <u>after</u> 1983. We hope these figures can some day be verified.

During 1983, CWA, several other unions and the AFL-CIO urged that the NTT agreement simply be allowed to lapse without renewal because it could not be made workable. Our scornful attitude was

shared by key elements of the business side, some of which considered the NTT agreement entirely irrelevant.

In 1980, well prior to the execution of the NTT agreement, we attempted to get the Office of USTR to pay attention to several obvious major defects which would be wholly against the best interests of the United States. Briefly, those defects which we saw then were:

1. No procurement rules and standards were given U.S. participants; what substituted therefor was a rather obscure chart (CWA Attachment 2), provided to USTR by the Japanese. The United States Government allowed the Government of Japan and NTT to let six full months slide by before the actual procurement standards for "Tracks II and III" became available here. The official version was 78 pages of Japanese; the English translation appended thereto was clearly labeled as "provisional." Our warnings were ignored.

2. The entire NTT market was not in fact available for open procurement. Clearly it was most embarrassing for our government's officials early in 1984 to acknowledge that telecommunications satellites and associated technology and apparatus had been left out of the 1980 negotiations. On March 6, 1984, an official of the USTR who was a key negotiator of both NTT agreements addressed a labor-industry coalition to which CWA belongs. While defending the agreements, this official told the coalition: "Satellites are very delicate. We were furious. The problem was the Government of Japan, which made sure that if we renewed, we would write off satellites. We surely do not want any other surprises." In further questioning, this USTR official said there now is a commitment that NTT would not be inhibited --- his verb was

"inhibited" --- from buying products other than satellites. The coaliton members were not encouraged at the admission of the oversight in 1980. Again, our warnings were ignored.

3. Under the 1980 NTT agreement, United States businesses were not allowed to take part in the research and development phases in product offerings; the 1984 renewal of the NTT agreement appears to assure equal treatment of American and Japanese firms in R&D activities. Early in 1980, this issue arose as a major consideration in U.S. telecommunications policy under the generic term of "information flows." This matter was a major point of contention in H.R. 6121, then pending in the House of Representatives; it was a major underpinning of the FCC's requirement that AT&T establish a fully separated subsidiary to handle AT&T's "competitive" ventures in such a way as to keep a wall of separation between the regulated and unregulated portions of the company. This separation requirement was part of the FCC order in the Second Computer Inquiry, Docket 20828. Divestiture and associated restructuring have left intact this separation requirement. On behalf of CWA, early in 1980 I raised the direct parallel of this "information flows" issue with USTR personnel, to alert them to the urgent need to ensure that any NTT agreement must include the same kind of requirement; in the absence of such safeguards, we warned, the "old boy network" would circumvent any otherwise adequate-appearing agreement. Again, our warnings were ignored.

4. Closely allied to "information flows" was the handling of proprietary information. We saw that the proposed 1980 agreement did not provide for any kind of protection of valuable documenta-

tion on product offerings. Allegedly the 1984 NTT renewal provides for protection of sensitive information. We remain skeptical.

Unfortunately it has taken the American officials 4 years to recognize that early participation in the product-design process is necessary --- and that safeguards on information flows are vital to afford integrity in a competitive process.

USTR convened hearings last October for a public record on whether to renew the agreement; the sentiments expressed were mixed. Subsequently,the labor advisers to USTR learned that the alleged overwhelming industry support for renewal came on the basis of ex parte contacts --- all off the public record. We have protested this way of conducting the public's business as being irregular, at best.

The NTT agreement of 1980 was important for several reasons: it underscored the openness of the domestic American market to foreign manufacturers' goods; it demonstrated that American trade negotiators are willing to give up the tools by which to defend our manufacturing and employment base; it showed a wholesale unwillingness to resist the industrial targeting practices of other countries.

We note that USTR is aware of the viable proposals to divest the operating entities of NTT, in much the same fashion as the AT&T breakup. In our view, the U.S. Government already has conceded that the newly divested entities would slip out from under coverage of the NTT agreement. We estimate that the "new" NTT, after its "privatization," would be about 25% of the present size--- following the AT&T pattern. AT&T gave up about 75% of its assets and employees in the divestiture.

USTR today merely says it is monitoring the Japanese Diet's work on breaking up NTT, and will engage in "consultations" on any restructuring. We are not encouraged.

We find ourselves agreeing with several key aspects of the Rolm Corporation's statement filed with this Commission. On p. 5 of the Rolm statement are two key points: The first point is that "We cannot permit that viability"--- referring here to the competitive world market --- "to be undermined by interests which operate by two sets of rules, open access to U.S. markets on the one hand and restricted access on the other hand."

The second key point raised by Rolm is: "In fact it is increasingly evident that the divestiture has had enormous and unanticipated effects in increasing imports into the U.S. both because of the RBOC activities and those of AT&T."

Then, on p. 6, Rolm refers to customer premises equipment to be offered by the newly divested Regional Bell Operating Companies: "Little, if any, attention was paid to the prospect that the RBOCs might purchase extensively offshore and thereby adversely affect the competitiveness of domestic manufacturing generally. Yet this situation may be developing."

To these points raised by Rolm, we urge close attention by this Commission.

CWA views the divestiture of AT&T, in the trade context, as an ill-considered unilateral elimination of a major non-tariff barrier to imports of telecommunications equipment. We do not see a corresponding and reciprocial increase in foreign market opportunity. Benefits will accrue to American equipment producers only

to the extent they can compete with major foreign manufacturers, many of which receive various kinds of government help.

If the United States Government desires to improve domestic companies' access to foreign markets, the only leverage is to control access to the United States market. Our government appears to have thrown away that leverage. Foreign equipment producers now have little or no incentive to pressure their governments to open their telecommunications markets. The U.S. policy of "free trade" is adding to our trade deficits, overall and in telecommunications goods.

We need a national trade policy which has as its priority the promotion of domestic economic viability and employment, and the defense of our manufacturing base against further losses. We require true reciprocity in trade, a concept entirely unacceptable to foreign telecommunciations goods makers and their governments, as their American representatives have testified numerous times.

One urgent need for the last decade has been a revised system of nomenclature for telecommunictions equipment, both in the Tariff Schedules of the United States (TSUS) and the Standard Industrial Codes (SIC). We endorse the Commission's proposed revision of TSUS nomenclature as a thorough piece of work. Your proposal will encompass all items of telecommunications equipment registered under Part 68 of the FCC's rules, as well as those Part 15 items which are intended to be connected to the nation's telecommunications network.

Revised nomenclature will give the industry a greatly improved reporting process, to aid in analysis of trade trends. One unfortu-

nate side effect of better reporting methodology, we expect, will be considerably higher figures on telecommunications equipment imports. But higher numbers may be the catalyst for action to preserve the nation's equipment industry.

Do we need new legislation? We have been told by many that the Trade Act of 1974 contains adequate authority for imposing reciprocity. Thus if we do not need new legislation, then our government must confront the threat to the domestic equipment industry shown in the 1983 import-export numbers. Any new legislation must not be limited simply to conferring more negotiating authority on the President. An industry subjected to targeting should not be required to become a supplicant or a defendant before U.S. government agencies; foreign competitors should be required to bear a burden of proof that they will not materially affect American industry.

CWA is greatly concerned that the divestiture and deregulation will have many unfortunate effects--- and that our members affected by the breakup will not be alone in feeling those effects.

CWA Attachment 1

4-18-84

AT&T Unit Offers Voluntary Retirement To Most of Its 60,000 Service Employees

By Claudia Ricci
Staff Reporter of The Wall Street Journal

AT&T Information Systems, the American Telephone & Telegraph Co. division that sells phone equipment, said it is offering voluntary early retirement to most of its 60,000 service-division employees nationwide.

The offer, announced internally last week, is being made to the bulk of the employees inherited by AT&T Information Systems from the Bell operating companies, when they were spun off Jan. 1.

Spokesmen said the company hasn't set targets for the number of employees it wants to cut.

The spokesmen termed the offer, which involves a financial incentive based on a worker's annual salary and length of service, "the second chapter" of an early retirement program that the company offered its employees last fall. In announcing that program, the company said it wanted to cut 10% of its force, which then numbered about 28,000 employees.

Many of the employees who joined AT&T Information Systems after Jan. 1 "have let it be known they want to get a shot at that program," a spokesman said. The company, he said, wants to make the early retirement program available to them "out of a sense of fairness." The company said it doesn't plan layoffs if too few workers take advantage of the voluntary offer.

However, this contradicts what sources close to the company have said.

Two consultants who work with AT&T have said that if a voluntary retirement program isn't successful, then it is likely that between 5,000 and 7,000 service technicians or repairmen will be laid off. The sources have said the workforce reduction is necessary because AT&T Information Systems' market share in the phone equipment business has dropped sharply.

James McCabe, telecommunications analyst with Prudential-Bache Securities Inc., said AT&T Information Systems "has too many people. They have to get rid of some of them." Mr. McCabe said AT&T "grossly overestimated its share of market in equipment. Clearly, they have lost share. It's logical that they will continue to lay off people to handle the amount of business they have."

Industry observers said AT&T, which once dominated the market for so-called key telephones, switching systems and residential phone equipment, currently is losing business to highly aggressive competitors, such as Northern Telecom Ltd. and many others.

An AT&T Information Systems spokesman said that last fall's voluntary retirement offer succeeded in reducing the company's work force by about 2,000. It currently employs about 58,000.

Although several AT&T Information Systems employees complained publicly that they were forced to retire or face dismissal, the spokesman said that, with the exception of "a very few isolated cases," employees departed voluntarily. In all cases, he said, they were offered other jobs in the company. Some, however, didn't take advantage of the job offer, the spokesman said.

The current offer goes out to nearly all the 60,000 employees, including managers, in the service division nationwide. Only those categories of employees deemed indispensable, such as computer programmers, will be excluded from the offer, the spokesmen said.

The company expects those employees who want to take advantage of the offer to do so by June 30, the spokesmen said.

RECEIVED
APR 12 1984
J. C. CARROLL
EXECUTIVE VICE PRESIDENT

AT&T Information Systems

Robert F. Bolton
Director - Labor Relations

Room 2J26
100 Southgate Parkway
Morristown, NJ 07960
Phone (201) 898-5480

April 11, 1984

Ms. Florine C. Koole
Assistant to Executive Vice President
Communications Workers of America
1925 K Street, N.W.
Washington, D.C. 20006

Dear Florine:

Attached is a copy of the bulletin covering a Business Services voluntary force reduction program. As you will note our prime effort is to be sure a uniform program has been administered by AT&T-IS.

Though voluntary programs may have been offered previously in 1983, certain BOC's did not offer SIPP/VIPP, others did offer them on a fragmented basis. By making an offer now, we can be assured that every employee in the specific surplus areas will be afforded an opportunity to participate. We are using a "show of interest" to avoid administrative problems.

As specific data becomes available, I will, of course, share it with you. Your continuing cooperation in these efforts is much appreciated.

Bob

Bulletin:

AT&T Information Systems

April 13, 1984

VOLUNTARY FORCE REDUCTION PROGRAM FOR SERVICES EMPLOYEES

A voluntary force reduction program was announced today for most Services employees (including some Consumer Sales and Service management employees) in AT&T Information Systems. It is the same program offered last fall in AT&T Information Systems and in some, but not all of the Bell telephone companies.

As before, the program offers monetary incentives for employees who choose to leave the company.

Bruce Schwartz, Division President-Services, said "This program is part of our continuing effort, through voluntary means, to match the skills and size of our work force to our evolving position in the marketplace."

Jack Rufe, Vice President-Personnel and Labor Relations of AT&T Information Systems, is the corporate officer responsible for the voluntary program. A letter from him with further information and "show of interest" forms will be distributed to Services employees next week.

The program will be coordinated in the division by Eldon Hanes, Vice President-Services. "Each Regional Vice President will coordinate voluntary force reduction locally based on regional force needs," according to Hanes. As a result, some non-management employees by title and location will not receive the offering. Members of Programming Staff (salary grades 21 through 26) will also be excluded.

Management employees will have until April 23 to express interest in the program by signing and returning the forms they will receive. Offers to managers selected for the program will begin June 1. They will have until June 18 to formally accept.

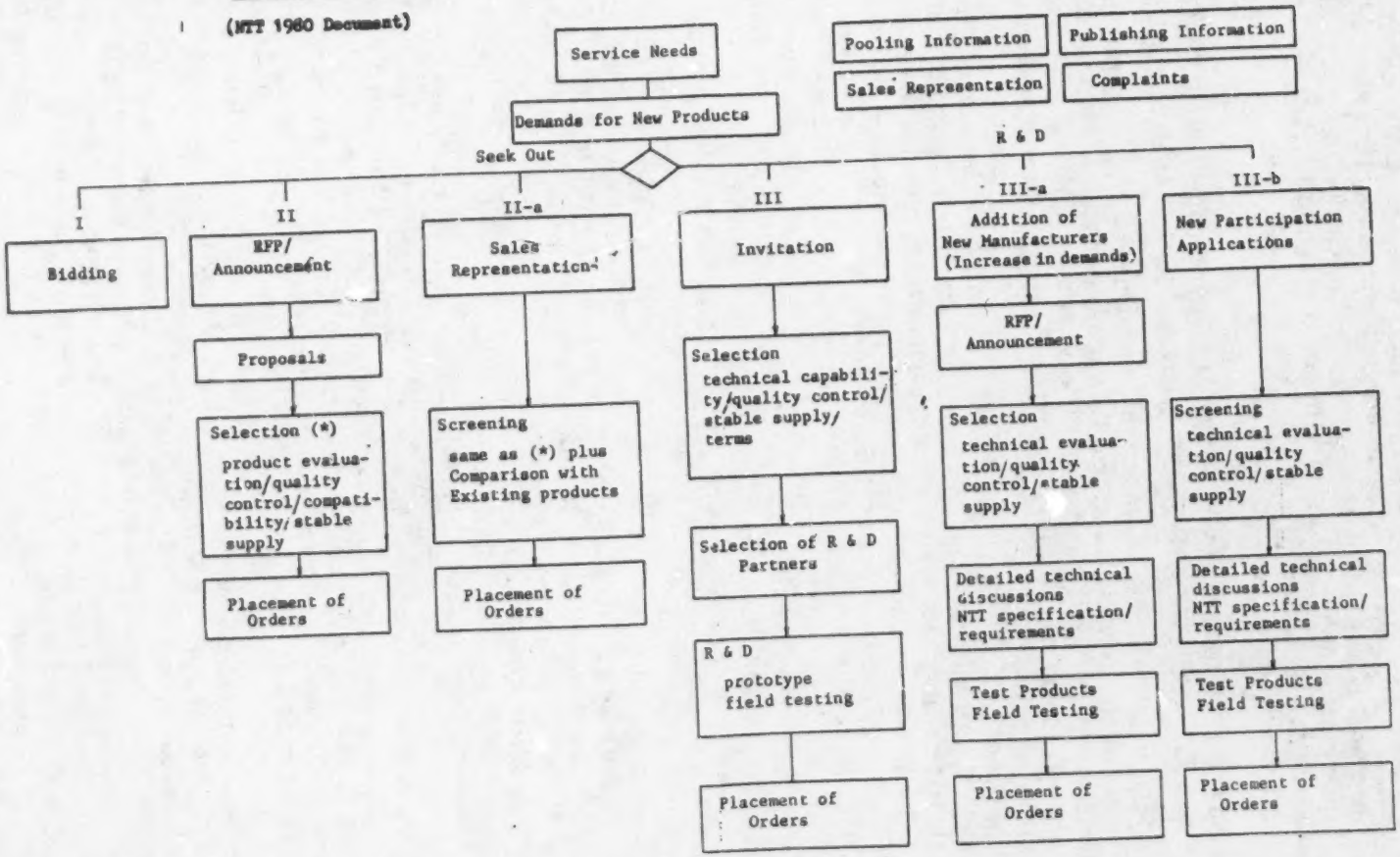
Non-management employees will receive information from their supervisor on how to demonstrate interest in this program. They will have until April 23 to express interest and will receive offers by May 18, depending on specific surplus conditions. They will have until June 18 to accept.

The last day on the payroll for all participating management and non-management people in Services will be June 30.

To help answer employee questions about this program, a special telephone "hotline" (800-222-0801) will be activated for Services employees beginning next Monday, April 16. It will operate from 8 a.m. until 6 p.m. (Eastern Time) Monday through Friday through April 30.

CWA Attachment 2

(NTT 1980 Document)



Senator DANFORTH. Finally, we have a panel of Mr. Edwin Spievack, North America Telecommunications Association; Mr. Morton Pomeranz, representing the American Association of Exporters and Importers; and Mr. Stanton Anderson, Communications Industry Association of Japan.

Mr. Spievack.

STATEMENT OF EDWIN B. SPIEVACK, PRESIDENT, NORTH AMERICA TELECOMMUNICATIONS ASSOCIATION, WASHINGTON, DC

Mr. SPIEVACK. Mr. Chairman, members of the committee, on behalf of the North American Telecommunications Association, although we are here to endorse the purposes and the objectives of this legislation, regrettably I must state that we are oppcsed to the bill in its present form.

We feel not only is it insufficient in terms of the players in the market, the markets and the products, but also in terms of some of the timeframes. In terms of employment, as Senator Baucus has raised the issue, and as has just recently been discussed, if the triggering mechanisms under this bill were to be implemented, we would have the problem in the independent distributing telecommunications industry of the United States or almost overnight 2,000 businesses would be forced out of existence and over 100,000 employees would immediately find themselves unemployed.

While there may have been reductions in the employment of—by Western Electric and AT&T, our industry has created over 100,000 new jobs in small businesses across the United States.

Today the administration's efforts in negotiating the elimination of restrictions in Japan has been largely successful in terms of the office telecommunications products industry, particularly PBX and key systems. Japan is an open market, but in terms of those products. But the question is will the United States do more business? Will the cash register begin to ring?

The likelihood is that that will not happen very quickly for several reasons. The one you have already averted to, which is the problem of currency to trade and the necessity of this Government to maintain some neutrality between currency and trade, which is going to involve intervention in currency markets, reduction of interest rates, and for myself, not the industry, I will say reduction in Federal deficits and the military expenditures area. A serious problem that this bill does not deal with that hasn't been mentioned this morning is the problem of Department of Defense restrictions on exports of high technology products.

Everybody who sits on the Industry Advisory Committee, authorized by this Congress, has brought that problem to the attention of this administration. And everybody knows that in terms of even quoting new products in most major areas of the world, the ability to get component systems and parts out of the United States because of Department of Defense restrictions is absolutely stultifying. Even where those problems—even outside those problems, the currency problem, as Senator Danforth recently recognized, adds 25 to 50 percent surcharge to American products.

And, third and equally as important, as we deal with the problem of free trade and opening foreign markets—Japan, Europe, the

European Economic Community and Canada—is the problem of the availability of distribution systems. Divestiture did not open this market to foreign imports. Carter-phone in 1968 opened the market. And the FCC's decision to eliminate connecting arrangements further caused an explosion of that market in 1976 and 1977.

Those issues were discussed at that time—the international trade issue. They were also discussed, contrary to what has been stated here today, at the time of divestiture. And simply no one paid attention.

Distribution is a problem because the world telecommunications market has been controlled by foreign governments. And to a certain extent, we look at the wrong market and the wrong target when we look at Japan because that market is only $6.8 billion in annual construction budgets where the EEC and Canada is over $40 billion, nearing, $50 billion a year and the United States, let me assure you, does even less business as a percentage of the total markets.

So we are going to have to look, we believe, at the whole question of sales and the ability for American companies to sell—in terms of sales. Equally important is the question of multinational corporations. It is also clear from the industry advisory committees that the American companies do want restrictions eliminated, as we do, in foreign markets of the world. But that elimination at the present time, because of currency and DOD restrictions and other factors, is going to lead to much, much higher sales volume by those companies but with products not made in Ameri not products made from abroad. And so we have to begin to look at the necessity of a government policy that somehow stimulates the distribution and may in some ways have to support it.

My time has run out faster than I originally thought, but I think that those are the major issues. And, particularly, I would like this committee and this Congress to begin to look much, much more carefully at this whole issue of Department of Defense restrictions on high technology products. It penalizes the United States because our political allies and our trading adversaries are picking up the business we lose because we can . et the products out of this country.

Thank you very much.

[The prepared statement of Mr. Spievack follows:]

TESTIMONY OF EDWIN B. SPIEVACK
PRESIDENT, NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION
SUMMARY

- Neither the recent market-opening negotiations nor SB 942 will reduce America's telecommunications trade deficit with Japan, or any other country. Because the bill fails to reflect the real-world realities of today's global marketplace for telecommunications equipment, it threatens to trigger a counter-productive trade war. Primarily for that reason, NATA's 700 independent manufacturers, suppliers and vendors of telecommunications equipment oppose SB 942.

- There are two ways to reduce the U.S. telecommunications trade deficit: restrict foreign imports (protectionism) or boost exports of American-made products.

- The first option -- protectionism -- would be catastrophic. Prices would rise for U.S. consumers. American's independent distribution network for telecommunications equipment would be destroyed overnight (about 2,000 vendors and 100,000 jobs) because there is insufficient non-AT&T, U.S.-based manufacturing capacity to meet growing U.S. demand. And AT&T's manufacturing monopoly would be reinstated.

- The second option -- boosting foreign sales of U.S.-made products -- is not addressed by the bill, which simply makes it easier for multinational corporations (American-owned or foreign-owned) to gain access to overseas markets. But it is highly unlikely that those corporations will sell their American-made products overseas -- mainly because the overvalued dollar has made "Made in America" too expensive or because Pentagon restrictions ban such sales. Instead, multinationals will market their foreign-made products overseas. Those sales contribute nothing toward balancing the U.S. trade deficit.

- Before America's telecommunications trade deficit can be reduced meaningfully, Congress and the Administration must address three additional non-tariff barriers to U.S. exports: the overvalued dollar; Defense Department restrictions on the export of U.S. technology; and the absence of independent marketing networks for the distribution of American products overseas. Addressing those three additional barriers is a long-term, multi-year proposition. Unfortunately, SB 942, with its two-year timetable and unrealistic expectations, fails to recognize that fact. Hence, it boxes the Administration into a "no-win" corner where counterproductive retaliation is the only option available.

My name is Edwin B. Spievack. I am President of the North American Telecommunications Association (NATA), the trade association of the telecommunications equipment industry. NATA today represents about 700 independent manufacturers, suppliers and distributors of state-of-the-art telecommunications equipment, such as Private Branch Exchanges (PBXs) and key systems. Our members are both domestic and foreign-owned companies. On behalf of NATA's worldwide membership, I appreciate the opportunity to testify on the Telecommunications Trade Act of 1985.

Due to Capitol Hill efforts, it appears that U.S. negotiators have succeeded in winning major, market-opening concessions from the Japanese in the telecommunications equipment field. More than three dozen standards governing the interconnection of customer premises equipment (CPE) to the Japanese network have been reduced to a single "no-harm-to-the-network" standard. The Japanese have agreed to allow foreign manufacturers, including American firms, to self-certify their products. And they have agreed to establish an independent approval agency for that equipment. Thus, the technical rules and standards governing the importation and use of equipment in Japan largely mirror American regulations. In that sense, the Japanese market has been opened.

But neither those market-opening efforts nor the provisions of this bill (SB 942) will reduce America's telecommunications trade deficit with Japan, or with any other country, for that

matter. If your objective is to make the proverbial cash register ring up more sales of American-made products, this bill will not succeed. While the legislation addresses one non-tariff barrier to increased U.S. exports -- restrictive standards and the like -- it fails altogether to address three other non-tariff barriers of equal, if not greater importance: that is, the bloated dollar; the absence of independent marketing networks in foreign countries; and Defense Department restrictions on the licensing of American high-tech exports.

Unless and until those three issues are addressed, all congressional efforts will fail. America's trade deficits will continue to rise. So will American impatience, thereby increasing the prospects for even more-damaging actions that could trigger the trade war all of us fear.

To the extent this bill fails to reflect the real-world realities of today's global marketplace for telecommunications equipment, as indeed it does not, the legislation unfortunately contributes to the misunderstandings and tensions. It further exacerbates an already volatile situation. The consequences of wrong moves could be disasterous -- both for the worldwide telecommunications industry and for the millions of businesses, institutions and consumers who depend on our technology.

Essentially there are two ways to reduce the U.S. trade deficit -- either restrict foreign imports to U.S. markets or increase

exports of American-made products to foreign markets.

Virtually everyone recognizes that the first option, protectionism, would be catastrophic -- not only for U.S. consumers and businesses who depend on imports, but ultimately for all American industry and for the global economy to which we are inextricably linked. Today, fully 75% of America's GNP depends in one way or another on trade, compared to less than 25% just two decades ago. Given that reality, to jeopardize our trading relationships truly would be self-defeating.

If the United States were to restrict the importation of telecommunications equipment through either of the retaliatory remedies specifically endorsed by this bill -- higher tariffs or a refusal to certify foreign products -- the American telecommunications market would be thrown into even greater turmoil than now exists.

The independent distribution network in the U.S., which we have spent nearly two decades creating, would be wiped out overnight. That's about 2,000 independent equipment dealers in every state of the country. That's about 100,000 American jobs. Because of the Bell System's century-old monopoly, the sad reality is that the United States does not yet have enough telecommunications manufacturing plants to meet burgeoning domestic demand.

Like it or not, American consumers depend on foreign telecommunications products. This is especially true in the market for key systems, the two-to-15-line telephone systems used primarily by small- and medium-sized businesses. Last year, American consumers spent almost $2.5 billion on such equipment. But only one-third of it was manufactured in the United States, and of that, the lion's share was made by a single firm -- AT&T. In fact, excluding AT&T, American-made key system products accounted for only 10 percent of total 1984 U.S. sales.

Because of the long-time monopoly dominance of AT&T and Western Electric (renamed AT&T Technologies) in this country, there simply is not enough manufacturing capacity in the U.S. to meet growing U.S. demand. AT&T's manufacturing stranglehold ended only last year, with divestiture. Closing U.S. markets to foreign imports, as this bill threatens to do, not only would raise consumer prices on all telecommunications equipment, it also would effectively reinstate AT&T's monopoly control. Anyone -- including the divested local Bell Operating Companies -- wanting to sell a key system in the United States would have to deal with AT&T. But since AT&T is also in the distribution business, it would have little incentive to supply products to competing vendors. Hence, one of the unforeseen effects of market-closing legislation would be the sudden reemergence of monopoly conditions in the U.S. marketplace.

Thus, we must reject protectionism as an option. But if we

don't raise the American drawbridge, we are left with only one alternative for reducing America's growing trade deficits: increase the number of American-made exports into foreign markets. It must be clearly understood that merely by opening markets in Japan, or elsewhere, we make it possible for American multinationals to sell their products there. But there is nothing that requires them to sell their American-made products in those markets. Unless they do, America's trade deficits will continue to worsen.

Given the realities of today's economy -- notably the inflated U.S. dollar and the proliferation of offshore manufacturing by American companies -- American-owned multinationals certainly will not sell their American products overseas for the simple reason that Made in America is too expensive. Instead, if they sell overseas at all, American companies will be marketing their central office switches and PBXs made in the Netherlands, and their computers made in Taiwan or Korea, or any number of other products made in any number of other offshore manufacturing havens.

Such sales might be great news for AT&T, GTE, DEC and Tandy and their shareholders -- not to mention for the Netherlands, Taiwan and Korea. But they won't add a single dime to a positive U.S. trade balance. And those sales won't add a single worker to U.S. payrolls. Until that reality is recognized and addressed by Congress and the Administration, those foreign cash

registers won't ring -- at least not in a significant way and not with products made in the USA.

Thus, without further remediation, we will be faced with a dangerous conundrum: our trade deficits will continue to increase even as we succeed in gaining greater access to foreign markets. Extricating ourselves from this mess will require a three-track approach, which complements the market-opening efforts of Congress. Each step is a long-term proposition that will require patience and integrated activities on a number of fronts.

First, we need to bring international exchange rates into some reasonable balance, thereby removing the 25-50% effective surcharge on all American exports, an obstacle that even the best American technology and marketing can rarely overcome. Thankfully, the exchange rate problem has received increasing attention in recent weeks, at least by members of Congress. NATA members were particularly supportive of the remarks you made on the subject last week at the National Press Club, Mr. Chairman, and of the recent preliminary report issued by the Democratic Working Group on Trade Policy, chaired by Senator Bentsen. The Reagan Administration must either intervene in currency markets to establish the neutrality of currency to trade or the Federal Reserve must lower interest rates immediately. Both steps may be required.

Second, the Defense Department's authority to restrict export licenses should be legislatively circumscribed or removed. Not only do such restrictions deny actual export sales to American firms, they inhibit U.S. companies from taking even the necessary first steps to respond to foreign RFPs. No company wants to invest in feasibility studies for foreign projects, if six months, or six years, later the Defense Department can ban the export of American-made components or systems described in the winning bids.

If the ultimate goal is to increase sales of American-made products overseas, a third item must be given a prominent place on the national trade agenda, too. We need independent distribution networks for American-made products in foreign countries. Sadly, however, there is not a single nation in the world where such networks are significantly established for telecommunications products and services. No such marketing networks exist in Japan, which, especially in view of its latest concessions, is by far the most open foreign market in the world -- a fact that regrettably continues to go unnoticed amid the inflammatory rhetoric.

And certainly no meaningful independent distribution networks exist in Europe, Canada, South America, or Africa, where government monopolies continue to have a stranglehold over virtually their entire telecommunications markets. Those markets are all but totally closed and cartelized. Significantly, the

1954 Treaty of Rome, which established the European Common Market, expressly excluded telecommunications from the competition rules of the EEC. State-run monopolies still prevail, with no signs of liberalization in sight.

Without such independent marketing networks, the best we can hope for is that a handful of American-owned multinationals will succeed in selling their products overseas. If we're extremely lucky and deflate the dollar, there's a chance that they will actually sell products manufactured in American plants by American workers. In a world increasingly dominated by international trade, however, we also need to extend the fruits of that trade to the small- and medium-sized businesses, which truly are the driving forces of American innovation and ingenuity.

Establishing such independent distribution networks overseas is decidedly a long-term proposition, which will require patience and a concerted effort by both the public and private sectors.

Consider the Japanese example in America. In the telecommunications equipment field, Japanese companies have been here for 17 years, ever since the FCC's landmark Carterfone decision allowed users to buy and connect to the American phone network non-AT&T equipment. These companies have patiently invested millions of dollars here -- in establishing and training sales forces, in working to establish independent American vendors,

and in developing maintenance and other customer support mechanisms. In short, they've learned how to sell in America. Significantly, some of these firms still haven't reaped a return on their investment, nearly two decades later.

Unfortunately, Senate Bill 942 requires more immediate gratification for American companies. Under your bill, positive results are required in a scant two years. I can positively guarantee that without the three-track effort I mentioned above, you will not get the desired results. The cash register receipts will disappoint. And the President will be boxed into a corner of Congress' making -- required to trigger the protectionist measures we all dread.

Patience and long-term approaches are the latest buzzwords in Washington. It is difficult to pick up a report -- whether from a private group such as the Business-Higher Education Forum or the Business Roundtable or from a public panel such as the President's Commission on Industrial Competitiveness -- without being regaled with the need for adopting long-term strategies. Yet, when push comes to shove, this bill demonstrates that we'd still prefer to shove -- to cry foul and insist on immediate gratification.

I believe the American telecommunciations equipment industry today is healthy enough, competitive enough and mature enough to adopt a more positive approach, one which recognizes that

our long-term prosperity depends on our ability to create independent distribution networks in every foreign nation. The need to establish such networks is especially acute in Japan, ever since the April 1 privatization of Nippon Telephone and Telegraph has eliminated that one-time monopolist as the single-source target of opportunity for U.S. firms.

Establishing those supply lines will require the active and creative participation of you, as public policymakers, and of us, as industry leaders. You can help us open markets by demanding actions from this Administration. Among the immediate requirements are: 1) to reduce the $200 billion federal budget deficit by cutting military expenditures; 2) to bring down the hyper-inflated value of the dollar; and 3) to create, and fund, better mechanisms in the Department of Commerce for promoting exports by small- and medium-sized American companies. Finally, policymakers must stop the schizophrenic trade battle between the Commerce Department and Defense Department by reining in the Pentagon's inordinate and counterproductive influence on U.S. trade policy through export licensing restrictions.

American industry has the principal role in boosting exports. It is a role that American industry is uniquely qualified to play -- should it so choose. Among our many strengths -- our capacity for technological innovation, our abundant capital resources, our educated and skilled work force, and our flexible, democratic institutions -- we should never lose sight of the

fact that Americans pioneered the modern marketing techniques of which an efficient product distribution system is the centerpiece. Our greatest challenge today is to adapt those marketing principles in foreign markets.

NATA firmly believes that deeper and more dedicated industry-to-industry efforts must emerge from this debate. We have long promoted this idea within the U.S. telecommunications industry, particularly as it relates to Japan. Further, we have promoted these ideas among our Japanese counterparts. We are not alone in this quest. And we have experienced our share of frustrations in the process. But we believe the objective is a correct one -- to compel global industrial interests to recognize their common needs and problems, not merely their differences. Congress should encourage a continuation of these industry-to-industry efforts.

Unfortunately, the Telecommunications Trade Act's unrealistic time constraints jeopardize those long-term industry-to-industry efforts. For that reason, the North American Telecommunications Association and its member companies oppose its passage. Insofar as the bill encourages others -- notably Canada and Europe -- to open their markets, just as the Japanese already have, it has limited merit. But the bill's many disadvantages far outweigh its few benefits.

Given the existing strength of the dollar, the absence of inde-

pendent marketing networks and the continued obstacle of Defense Department export restrictions, it is totally unrealistic to expect exports of American-made telecommunications products to increase appreciably in the next two years. That goes not only for Japan, but especially for Canada and Europe. Thus, your timetable is too short and your expectations are unrealistic.

At best, SB 942 is a "Multinational Relief Act," which might help pry open foreign markets to increased sales of products made overseas by American-owned corporations. As I hope I have demonstrated, such a "success" will not add a cent to America's bottom line. At worst, the bill will trigger a catastrophic trade war, which will harm American consumers, devastate America's own independent distribution network and return control of the U.S. telecommunications equipment industry to a single corporation -- AT&T.

Thank you for the opportunity to testify today.

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STATEMENT OF MORTON POMERANZ, GAGE TUCKER & VOM BAUR, ON BEHALF OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, NEW YORK, NY

Senator DANFORTH. Mr. Pomeranz.

Mr. POMERANZ. Thank you, Senator Danforth. I am Morton Pomeranz, counsel to the Washington and Kansas City law firm of Gage Tucker & Vom Baur.

Senator DANFORTH. We would call it the Kansas City and Washington law firm.

Mr. POMERANZ. I accept the amendment, sir. [Laughter.]

I appear here as a member of the American Association of Exporters and Importers, an organization which, for more than six decades, has represented every segment of the international trading community. I'm accompanied by Robert Leo, the association's staff attorney.

The association continues to support the liberalization of trade and, therefore, applauds the goal of S. 942. However, in moving to reach that goal, the bill takes insufficient account of legislative tools already available to cope with the problem presented and then seeks to create additional tools which in some cases would violate our long-standing international commitments while probably hurting rather than helping our telecommunications trade.

The U.S. telecommunications industry is healthy and strong. We can all agree that the break-up of AT&T has created new opportunities for foreign manufacturers as well as for the domestic manufacturers for whose benefit the divestiture was, in part, originally designed.

In this interdependent world, if we create new trade opportunities in our own country, we must expect foreign competitors to seek to obtain a piece of that same pie. We cannot object so long as they do this fairly. Should the foreign effort present an actual or potential threat of injury to our domestic industry, recourse, of course, should be sought through the escape clause provision of our trade laws.

Should the foreign sales effort be accompanied by dumped or subsidized prices, these can be met by dumping and countervailing duties provided for this purpose under our trade legislation.

The imagination of man probably knows no limit in the creation of additional unfair trade practices. But we would also not underestimate the imaginative uses of section 301, the major unfair trade practices piece of our law.

And this includes doing something about foreign markets which are foreclosed to our suppliers through foreign government programs that enable their own suppliers to sell at unfairly competitive prices in world markets.

The centerpiece of the proposed bill is the concept that the opening of foreign markets can be levered by a threat that the United States will raise tariffs on our telecommunications imports if other governments refuse to give our telecommunications exports a fair opportunity to compete.

Basically, we consider that this authority already exists under U.S. trade laws. However, under S. 942, the grant of such authority, as presently written, would have to be employed in a fashion

that leaves little flexibility to the President and the U.S. Trade Representative.

It also places an impossible burden upon them in carrying out their tasks. We welcome the fact that this bill, unlike its predecessor, does recognize the possibility that the United States might have to pay compensation in some instances where we chose to raise our duties on competitive imports.

Two other features of the proposed bill seem to require additional effort to which we would happily contribute. Does the provision in title 3 with regard to the Federal Communications Commission seek to enlarge the authority of the Commission? If so, what limitations will there be on that authority to insure that it does not violate our international commitments on such things as standards?

Finally, we deem the definition of "telecommunications products" to include products which were probably never intended to be included for the purposes of this legislation. This we can certainly help remedy.

For the reasons given in our full statement for the record, we would hope that Senator Chafee would agree that his S. 728 should be folded into the overall reconsideration of S. 942.

Thank you very much for the opportunity to appear.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. Pomeranz follows:]

THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS
SUMMARY OF TESTIMONY ON THE
TELECOMMUNICATIONS TRADE ACTS S.942 and S.728

The American Association of Exporters and Importers (AAEI) represents over 1000 U.S. company members nationwide engaged in the export, import and distribution of goods between the United States and countries throughout the world. The promotion of fair and open trade among nations has been the primary mission of AAEI for the 64 years of it existence.

We understand the frustrations that U.S. exporters of telecommunications products and services feel as they work to expand their business internationally. The industry is healthy and strong. AAEI supports the lowering of foreign trade barriers to U.S. telecommunications exports.

However, we are deeply concerned that, as the U.S. Congress and the Administration seek ways to further open overseas markets, they not take actions that can seriously injure U.S. exporters, the economy as a whole, and the international trading system.

The most comprehensive of current proposals to spur negotiations in the telecommunications field is S. 942. While helpful on a number of points and well-intentioned throughout, we believe it is undermined by serious flaws which make its adoption (or that of similar proposals) self-defeating in the short run and injurious in the long run. If enacted, in our judgment, the bill would violate U.S. international obligations and understandings. When others followed our lead, as they quickly would, U.S. exporters would be among the first and most badly wounded casualties.

As a vehicle to aid negotiations to open foreign markets, we believe that S. 942 provides too little flexibility to U.S. negotiators and foreign governments to permit fruitful outcomes.

S.728 is similiarly inconsistent with our international obligations. Additionally, it would operate to hurt U.S. exporters immediately, as any components containing a Japanese product, imported to be incorporated into an exported product, would be barred from entering the U.S.

The Association reiterates its support for the expansion of world markets and stands firm in its belief that such expansion cannot be achieved unilaterally, but only through positive multilateral efforts.

American Association of
Exporters *and*
Importers *11 West 42nd Street, New York, N.Y. 10036 (212) 944-2230*

TESTIMONY

OF

MORTON POMERANZ, Esq.

ON BEHALF

OF THE

AMERICAN ASSOCIATION

OF

EXPORTERS AND IMPORTERS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ON

S.942, THE TELECOMMUNICATIONS TRADE ACT OF 1985

May 3, 1985

American Association of
Exporters *and*
Importers *11 West 42nd Street, New York, N.Y. 10036 (212) 944-2230*

Good morning Mr. Chairman and members of the Committee. My name is Morton Pomeranz. I am a counsel to the Washington, DC law firm of Gage, Tucker and von Baur. I appear here as a member of the American Association of Exporters and Importers (AAEI), and one who has had the privilege and honor to be a senior member and adviser of every U.S. delegation to GATT trade negotiations from 1960 to 1980. I am accompanied today by Robert Leo, the Association's Staff Attorney.

The Association represents over 1000 company-members engaged in the export, import, and distribution of goods between the United States and countries throughout the world. The multitude of products sold by AAEI member companies range from chemicals, electronics, textiles and apparel, machinery, footwear and food to automobiles, wines and specialty items. In addition, many support elements of the international trade community -- customs brokers, freight forwarders, banks, attorneys and insurance firms -- are active members of AAEI.

Among our members are domestic manufacturers and U.S. subsidiaries of foreign companies engaged in the manufacture, import, export, and distribution of telecommunication products. As an Association we have committed ourselves to promoting liberalized trade and opposing protectionism on behalf of U.S. businesses. That we are submitting these comments speaks to the concerns of the international trade community regarding S.942, the Telecommunications Trade Act of 1985 and S.728.

Last September, AAEI was on record opposing S.2618, the Telecommunications Trade Act of 1984, the predecessor to the first bill we are discussing today. While S.942 seems more carefully drafted and comprehensive than last years bill, there are still some major problems that we would like to point out.

AAEI continues to support the liberalization of trade and applauds the goal of S.942. The further opening of foreign markets would benefit world trade, including trade in the telecommunications field. We must emphasize that although

the Telecommunications Trade Act of 1985 (TTA) may be perceived as a tool to increase access to foreign markets, some of its methods are totally inconsistent with established U.S. practice and policies. The Act, if passed, will send a less-than-subtle message to our trading partners that the U.S. policy is now "fair trade", with "fair trade" being defined unilaterally by the U.S.. Our testimony today will be concentrated on the incompatibility of provisions of S.942 with our international commitments.

S.942 is founded upon the false premise that the court-ordered divestiture of AT&T was a unilateral "concession" to our trading partners. It may appear as if the U.S. missed the chance to use the AT&T break-up as negotiating leverage, however a retroactive unilateral declaration that the divestiture was a concession is without foundation under accepted understandings in the GATT. "Concessions" under the GATT are negotiated, or made pursuant to an agreement. The concessions we have made over the years to other GATT partners have been paid for by them in the form of lower tariffs on their imports including telecommunications products from us. If we unilaterally set international trade rules we must expect our trading partners to follow suit. It is self-defeating to assert that we are owed compensation, in the form of access to foreign markets, due to the break-up of AT&T.

Senator Danforth preceded the introduction of this bill with the remark that "[t]he negotiation of reciprocal market access market arrangements is the cornerstone of the GATT." However, the notion of reciprocity contained in S.942 is not contained in the GATT. GATT Article XXVIII(bis) states that tariff negotiations should be entered into on "a reciprocal and mutually advantageous basis." Reciprocity has meant each party to a negotiation gives up and gains equal amounts, not necessarily in balance with regard to particular classes of goods. S.942 defines reciprocity as "equal access" with regard to a particular category of product and uses the perceived lack of access to a foreign market for that product, combined with an open U.S. market, as a device to force our trading partners to enter into negotiations.

This unilateral changing of internationally used principles is not a step toward world trade expansion but a step toward weakening the multilateral trading system at a time when it needs all possible strengthening.

There are a number of specific provisions in S.942 which concern our members. Section 2(4) of S.942 states that a loss of jobs in the U.S. telecommunications industry is threatened by unfair and discriminatory trade practices. The present U.S. trade laws are effective weapons against unfair practices of foreign nations. The U.S. telecommunication industry is on the cutting edge of technology and the recognized world leader. While imports of telecommunications are increasing, there is no evidence that the U.S. industry is anything but healthy. If in fact there is a threat of injury to domestic industry, recourse should immediately be sought via the "escape clause" provision of our trade law. To talk of injury "down the road" when there is no present injury is a serious flaw in this legislation. Protection of a healthy industry is a precedent the U.S. and the world can not afford to embrace.

The standard, "imbalance in competitive opportunities," in this case, for trade in telecommunications, is not an unfair trade practice found in section 301 of the Trade Act of 1974 nor in the GATT that allows the President to take action. To fault the "open nature" of the U.S. market for an impliedly irreversible competitive imbalance is 'giving the store away' to protectionists and violating the letter as well as the spirit of GATT.

Also of concern in the Telecommunications Trade Act of 1985 is the inclusion of the standard of "substantially equivalent to the competitive opportunities provided by the United States..."(hereinafter referred to as SECO). Up to this point the concept exists in U.S. trade law for the purpose of insuring that in a multilateral trade negotion each and every major trading partner will make an

equivalent contribution to the negotiation. In past negotiations we have made telecommunications tariff concessions to others on a part of a larger package of concessions and we have determined that SECO resulted from the package we obtained from others in all categories of tariff concessions. In other words, we have certified that there was SECO in those negotiations. The proposed bill would have us use this standard to go back on the original certification because we, unilaterally, through divestiture, created larger trade opportunities in the U.S. for foreign suppliers as well as for new U.S. suppliers. If one of our major trading partners were to move in this direction we certaintly not tolerate such a claim being made against us.

Another serious question is raised by the distinction between foreign companies and their U.S. subsidiaries and U.S. firms and their subsidiaries found in sections 101 and 102 of the bill. Specifically, §102 (a)(2)(A)(ii) cites as one of the objectives of the President in entering negotiations: "to correct the imbalance in competitive opportunities accruing from uncompensated reductions in barriers to the access of foreign firms and their subsidiaries to the [U.S.] telecommunications market." The USTR must take into account economic benefits accruing to U.S. subsidiaries of foreign firms, §101(b)(A), as part of their analysis of barriers to U.S. trade in telecommunications. Notwithstanding the fact U.S. subsidiaries of foreign firms are recognized legal entities and subject to U.S. laws, pay U.S. state and federal taxes and employ hundreds of thousands of U.S. citizens, S.942 has impliedly set up a monstrous barrier to investment in the U.S. The better a U.S. subsidiary of a foreign firm does in the U.S. and the slower that foreign mother country is in negotiating increased access to its market the greater the so-called "incompetitive balance", making sanctions that much more likely. The distinction could hypothetically, in conjunction with §101(b)(1)(B) which cites the "export potential" of U.S. products and services,

act to penalize a better businessman and marketing system and reward an inefficient one. In that light S.942 can be seen not only as protectionist legislation which will put up barriers to trade, (which usually are set up to encourage investment in the U.S.,) but also a bill which will chill foreign investment in the U.S.

Under this rubric, one need only look at §101(b)(2) which provides that in making determinations the USTR, "shall consider as dispositive any evidence of actual patterns of trade... that do not reflect patterns of trade which would reasonably be anticipated to flow from the concessions or commitments of such country based on concessions or commitments of such country based on the international competitive position and export potential of such products and services." We submit that the bankruptcy courts of the world are littered with the remains of companies who have wagered on such "patterns" and "anticipated flows" and lost for good and sufficient business reasons far removed from discriminatory acts of other governments.

Just as unreasonable is to hold foreign countries responsible for the success of such U.S. company activities as product development and adaptation, servicing and supply, advertising, competitive pricing and other business decisions and activities. Section 101(b)(i)(B) mandates the USTR to consider in their analysis of perceived barriers to U.S. telecommunications trade, "actual patterns of trade, including sales...in relation to the international competitive position and export potential of such products and services." (emphasis added). Section 102(a)(2)(A)(iii) mandates that one of the President's negotiating objectives will be "to facilitate the increase in [U.S.] exports of telecommunications products to a level commensurate with the competitive position of the [U.S.] telecommunications industry."(emphasis added) These provisions not only take the pressure off U.S. firms to compete aggressively, but they draft the President and the USTR as marketing experts.

Threaded throughout S.942 is a disturbing lack of discretion given to the President or the USTR. While AAEI encourages analyses being done and negotiations taking place, we also remain fixed in our belief that a foreign country should not be "clubbed" into opening its markets. Such an approach may have been favored in the days of Admiral Perry, but it has no place in an economically interdependent world. The President, in §102, and the USTR, in §103 are mandated to take retaliatory, trade-constricting action if the mandatory negotiations fail. If one of their actions is to withdraw, terminate or suspend any portion of a trade agreement with a foreign country, the duty rates on products under that agreement immediately go up to column 2 rates (§102(b)(4)(B), §103(c)(3)). In addition to the lack of discretion and room for our government to negotiate, AAEI is concerned that, as defined under S.942, any trade agreement that can be unilaterally terminated, modified or withdrawn is not necessarily a telecommunications agreement. The result would then be column 2 duty rates on non-telecommunications products. Such a step should not be an automatic one; our government must have the flexibility to operate in order to expand world trade, not be bound by trade restricting legislation.

We have additional concerns with regard to Title III of the proposed bill. Section 301 impliedly recognizes that the Federal Communications Commission (FCC) is applying limited standards to imported telecommunications equipment. The FCC is of course an independent administrative agency. Does the proposed section intend to amplify the powers of the Commission with regard to licensing the entry of telecommunication products? If so, what are the bounds of the exercise of that authority and how will we ensure that our commitments in the international standards agreement will not be violated? Misuse of standards has too frequently occurred against U.S. suppliers so that we cannot take this provision too lightly.

The Association also wishes to raise a technical question regarding the inclusion of certain products under the term "telecommunication products"(§304). Article such as radios, clock-radios, stereo equipment, tape players and CB radios should not be included in negotiations for market access on telecommunications equipment as they are not integral parts of a telephone-based telecommunication system nor items attached to such a system by businesses or individuals. AAEI is certain that our industry members are willing to work with the Subcommittee and its staff to separate out those products for which no demands for market access are being made.

In summary, AAEI urges that this bill be put into perspective. AAEI supports the goal of S.942, the Telecommunications Trade Act of 1985 -- namely to expand trade opportunities for U.S. telecommunications exporters through the lowering of foreign trade barriers. We also support the bill's call for regular study of the impact of domestic policy and practices on international competitiveness in the telecommunications industry. We believe this makes sense for all industries. The Association is encouraged by the recent agreements with Japan in telecommunications, notably that they will use the U.S. standard of "minimum standards necessary to protect the telecommunications network" in their certification process, and hope other countries will follow their example of increasing access to their telecommunication markets.

The goal of S.728 is the same as S.942 and similiarly deserves our support. However, as in S.942, there are provisions in this bill which violate our international obligations. In addition, S.728 will hurt the exporters it means to help. U.S. telecommunication companies, including U.S. subsidiaries of foreign firms, would no longer be able to incorporate any components from Japan, or from third countries that use Japanese parts in their products, into their products in order to reexport them. That situation, coupled with probable retaliation, would severely damage U.S. exports.

We understand the frustrations of U.S. exporters in attempting to increase access to their foreign markets, but AAEI cannot remain silent when well-intentioned but flawed legislation is introduced that will ultimately hurt those it is meant to help. There are provisions of the Telecommunications Trade Act of 1985 and S.728 that undeniably would abrogate our international obligations. The U.S. cannot unilateraly change international practices, policies and definitions, especially in light of recent U.S. calls for new GATT rounds, and expect its trading partners to accept it without comment or retaliation. The U.S. government must have the flexibility to maneuver in international negotiations. Protection of a healthy and growing industry at the expense of world trade has not been and must not be viewed as the banner under which the United States does business.

STATEMENT OF STANTON D. ANDERSON, ON BEHALF OF THE COMMUNICATIONS INDUSTRY ASSOCIATION OF JAPAN, WASHINGTON, DC

Senator DANFORTH. Mr. Anderson.

Mr. ANDERSON. Thank you, Mr. Chairman.

My testimony today is presented on behalf of the Communications Industry Association of Japan, CIAJ. CIAJ is a leading organization of communications equipment manufacturers in Japan, and is comprised of more than 200 corporations, including a number of American companies, which produce communications equipment for the Japanese market and for export to the world market. CIAJ appreciates the opportunity to present its views this morning to the subcommittee on S. 942.

CIAJ has been and continues to be an advocate of a fully open, transparent and nondiscriminatory communications equipment market in Japan. CIAJ and its members recognize that trade in telecommunications between the United States and Japan must be a two-way street. While CIAJ supports the stated objectives of the bill for a more open trading system in telecommunications products, it has serious concerns over the method by which the bill would accomplish this objective.

We have three principal comments on S. 942. The bill's provision for retaliation in the face of ongoing negotiations with Japan we feel is inconsistent with the spirit of the international trading system and in contravention of the letter of the General Agreement of Tariffs and Trade as it relates to the settlement of disputes.

Second, the sectorial reciprocity standard adopted by the bill will, in our view, result in a trading system in which each nation accords differing treatment to imports depending on their source. The U.S. Government has long, I think, opposed sectorial reciprocity as not in the long-term best interest of the United States.

Third, the standard that S. 942 adopts for determining whether a country has violated the terms of a trade agreement, that is, whether the actual level of U.S. telecommunications exports is below that anticipated by the United States given the international competitive position of U.S. telecommunications products, is a total departure from recognized principles of international trade, and we think a quick recipe for the unravelling of the trading system.

In our judgment, significant progress has been made in the last few months and in the latest round of negotiations. That view, we believe, has been—is shared by the U.S. Government. While these steps will not guarantee an increase in U.S. sales in and of themselves, they will, we think, insure an open and nondiscriminatory Japanese telecommunications market. Rather than retaliate, the United States should provide breathing room so that further negotiations can proceed.

I wish it were possible to say to the committee this morning that dramatic reversal of the U.S. trade deficit with Japan in the telecommunications is about to occur. Realistically, I think continued progress can and will be made through bilateral and perhaps multilateral discussions directed toward resolving outstanding issues,

and creating an environment in which U.S. firms are confident that they can compete successfully in the Japanese market.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Anderson.

[The prepared written statement of Mr. Anderson follows:]

SUMMARY

Testimony Of Stanton D. Anderson
On Behalf Of The
Communications Industry Association Of Japan

Before
Senate Finance Committee
International Trade Subcommittee

May 3, 1985

- CIA-J has been and continues to be an advocate of a fully open, transparent and non-discriminatory communications equipment market in Japan. CIA-J has long recognized that trade in telecommunications between the U.S. and Japan must be a "two way street".

- While CIA-J supports the objective of a more open trading system in telecommunications it has serious concerns over the method by which S.942 and S.728 would accomplish this objective.

- S.942's provision for retaliation in the face of ongoing negotiations with Japan is inconsistent with the spirit of the international trading system and in contravention of the letter of the GATT as it relates to the settlement of disputes.

- The sectorial reciprocity standard adopted by S.942 would result in a trading system in which each nation accords differing treatment to imports depending on their source. Absent under such a system would be the efficient utilization of the world's resources afforded under the principle of Most Favored Nation (MFN) treatment.

- The standard S.942 adopts for determining whether a country has violated the terms of a trade agreement (i.e. whether the actual level of U.S. telecommunications exports is below that anticipated by the U.S. given the international competitive position of U.S. telecommunications products) is a total departure from recognized principles of international trade and a quick recipe for the unraveling of the trading system.

- Significant progress has been made on standards, certification and value added networks as a result of recent bilateral discussions. While these strides will not guarantee an increase in U.S. sales in and of themselves, they will ensure an open and non-discriminatory Japanese telecommunications market. Rather than retaliate, the United States should provide breathing room so that further negotiations can progress.

- As an alternative to S.942, CIA-J supports the negotiation of a multilateral telecommunications trade agreement or a "Code" on telecommunications trade and services. The Code would operate on conditional MFN basis in the same fashion as the Tokyo Round Codes. Only countries which made concessions would be able to enjoy the benefits the Code would provide. This approach would be wholly in accord with GATT practice and consistent with a multilateral approach to trade liberalization.

Statement Of
Stanton D. Anderson
On Behalf Of
The
Communications Industry Association
Of Japan

May 3, 1985

Before The Senate Finance Committee,
Subcommittee On International Trade

Mr. Chairman and Members of the Committee:

My testimony is presented on behalf of the Communications Industry Association of Japan (CIA-J). CIA-J is the leading organization of communications equipment manufacturers in Japan, and is comprised of more than 200 corporations, including a number of American firms, which produce communications equipment for the Japanese market and for export to world markets. CIA-J appreciates the opportunity to present its views to the Subcommittee on S.942 ("The Telecommunications Trade Act of 1985") and S.728.

CIA-J has been and continues to be an advocate of a fully open, transparent and non-discriminatory communications equipment market in Japan. CIA-J believes that trade in telecommunications between the U.S. and Japan must be a "two way street". For this reason, CIA-J supports the underlying objective of S.942: more open international trade in telecommunications equipment. We have serious concerns, however, over the method by which S.942 would seek to accomplish this objective. We have similar

concerns over the retaliatory approach which would be taken under S.728.

In recent weeks an ongoing diplomatic effort at the highest levels of the U.S. and Japanese governments has been underway to increase U.S. access to Japan's telecommunications market and significant progress has been made on standards, certification and value added networks. CIA-J has worked with U.S. officials over the past few months to ensure the implementation of many of the concessions made by the Japanese government in these areas. Moreover, CIA-J has sought increased cooperation with U.S. manufacturers as a means of resolving frictions in bilateral telecommunications trade. For example, next week CIA-J will be meeting with a number of U.S. electronics industry representatives in Hawaii to discuss further ways of resolving trade frictions and enhancing bilateral trade opportunities.

Let me outline our principal objections to S.942:

1. The Bill's provision for retaliation in the face of ongoing negotiations with Japan is inconsistent with the spirit of the international trading system and in contravention of the letter of the General Agreement on Tariffs and Trade (GATT) as it relates to the settlement of disputes. If the United States proceeds to take trade disputes into its own hands by imposing unilateral retaliation, rather than proceeding through the consultation and dispute settlement process of the GATT, it risks the destruction of the open trading system and a return to global protectionism. Significant progress has been made through

ongoing negotiations. Hence rather than retaliate, the United States should provide breathing room so that further negotiations can progress.

2. The Bill adopts a sectorial reciprocity standard which would have the Administration judge the fairness of foreign market access in telecommunications equipment by reference to access afforded foreigners in the U.S. market. The United States has consistently opposed the application of sectorial reciprocity to the world trading system because such an approach could result in a trading system in which each nation accords differing treatment to imports depending on their source. The application of sectorial reciprocity could result in a system in which trade flows are balanced on a country-by-country basis. Under such a system there would not be the efficient utilization of the world's resources now afforded under the principle of Most Favored Nation (MFN) treatment.

3. In judging whether a country has violated the terms of a trade agreement, the Bill adopts a standard which represents a total departure from recognized principles of international trade. The Bill requires that the U.S. Trade Representative consider as dispositive of such a violation whether the actual level of U.S. telecommunications exports is below that anticipated by the United States given the international competitive position of U.S. telecommunications products. This standard is a quick recipe for the unraveling of the open trading system. If every nation based access to its market upon what it believed it

was entitled to export to its trading partners, the international trading system would quickly deteriorate into one of anarchy and protectionism.

As I indicated earlier, while CIA-J supports the objective of a more open trading system in telecommunications, it has serious concerns about the means by which S.942 would accomplish this objective. As an alternative approach we would support the negotiation of a multilateral telecommunications trade agreement or a "Code" on telecommunications trade and services. The Code would operate on a conditional MFN basis in the same fashion as the Tokyo Round Codes. Only countries which made concessions would be able to enjoy the benefits the Code would provide. For example, countries could agree to reduce regulatory barriers, including those in the standards and certification area, in exchange for reciprocal treatment from other Code signatories. This approach would be wholly in accord with GATT practice and consistent with a multilateral approach to trade liberalization.

CIA-J will continue its efforts toward achieving an open Japanese telecommunications market. Toward this end, CIA-J will continue to urge the Japanese government to adopt standards and approval systems which provide equal opportunities for U.S. firms.

I wish it were possible to say to the Committee this morning that a dramatic reversal of the U.S. deficit with Japan in telecommunications trade is about to occur. Realistically,

increases in U.S. telecommunications exports to Japan will come gradually. Until 1981, Japan's telecommunications market was, for all practical purposes, closed to imports. As a result of the efforts of U.S. and Japanese negotiators great strides have been made. While these successes will not guarantee an increase in U.S. sales in Japan in and of themselves, they will ensure that the Japanese telecommunications market is transparent, non-discriminatory and open to imports. U.S. access to Japan's telecommunications market has come a long way since 1981. Continued progress can be made through bilateral, and perhaps multilateral, discussions directed toward resolving outstanding issues and creating an environment in which U.S. firms are confident that they can compete successfully in Japan's market.

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Senator DANFORTH. Gentlemen, do any of you disagree that substantially equivalent competitive opportunities should be the standard for U.S. trade policy?

Mr. SPIEVACK. No, I don't agree. I don't disagree. I think it should be.

Senator DANFORTH. How about you, Mr. Pomeranz? Oh, I'm sorry, Mr. Spievack.

Mr. SPIEVACK. I do think that there is a lot of misunderstanding, Mr. Chairman, concerning the nature of the way the trading system works in the world today; particularly, in terms of high technology products. I believe many manufacturers think they can simply go and sell their products in U.S. markets.

As Mr. Fitzgerald indicated, but didn't sufficiently explain, high technology products demand an enormous distribution system overseas, and marketing. Putting aside cultural barriers, which can be overcome with marketing techniques today, you simply cannot sell a high technology product into a foreign market without adequate distribution to support it. And that's something that on our industry side there is insufficient attention given to. And on the administration side, and I believe in this bill, there is insufficient attention.

Senator DANFORTH. You don't disagree with the goal of substantially equivalent competitive opportunities?

Mr. SPIEVACK. No, not at all.

Senator DANFORTH. Do you, Mr. Pomeranz, disagree with that?

Mr. POMERANZ. Mr. Chairman, I note that SECO has been part of our established trade legislation since the 1974 act. And, certainly, I fully subscribe to it in the terms that it was embraced in that act. It was clearly a direction to our negotiators that you never can leave a major negotiation until you have that nice comfortable feeling in your belly that you have, in fact, made each and every negotiating partner there contribute the equivalent to what you have given them in that negotiation.

Senator DANFORTH. You think that that is and should be the standard that we should pursue?

Mr. POMERANZ. Always, Mr. Chairman. I do have, however, a problem when that concept is moved to just a narrow trade product category. There may be a problem.

Senator DANFORTH. Mr. Anderson, do you agree with the SECO concept?

Mr. ANDERSON. I do, Mr. Chairman, in a broad context. I think Mr. Pomeranz is right that it's been a part of overall policy, but not when it's applied in a sectorial way, which I think is what is done in this bill.

Senator DANFORTH. Yes; it is. Let me ask you whether you think it should be applied, sectorial or not, do you believe that the United States enjoys substantially equivalent competitive opportunities to sell telecommunications products in other countries, including Japan, as other countries have to sell in our market?

Mr. SPIEVACK. May I?

Senator DANFORTH. Yes.

Mr. SPIEVACK. I'd say we are fairly close to it in Japan in terms of the office telecommunications product.

Senator DANFORTH. In terms of what?

Mr. SPIEVACK. The office telecommunications products—PBX, key systems. Whether we are all the way there yet in terms of satellites and transmission systems, I don't know. Those are the subjects of continuing negotiation.

Senator DANFORTH. Do you have a feel for it?

Mr. SPIEVACK. We are getting close. Japan has given every indication that those restrictions are going to be relaxed.

Senator DANFORTH. Some time in the future if all understandings and agreements are carried through or are now?

Mr. SPIEVACK. No, no; to be relaxed by June, by June.

Senator DANFORTH. How about right now? Do you think we enjoy substantially equivalent competitive opportunities with Japan now in telecommunications?

Mr. SPIEVACK. Yes, if we take advantage of them. As I said, in the office telecommunications product area—

Senator DANFORTH. Your answer is yes?

Mr. SPIEVACK. Yes. Our problem is Europe.

Senator DANFORTH. Do you think we do with Europe?

Mr. SPIEVACK. We do not in any sense.

Senator DANFORTH. How about Canada?

Mr. SPIEVACK. Not in any sense.

Senator DANFORTH. How about Latin America?

Mr. SPIEVACK. I, frankly, do not know enough about Latin America to answer that.

Senator DANFORTH. How about you, Mr. Pomeranz? Do you have an opinion as to whether or not we do enjoy substantially equivalent competitive opportunities with our trading partners in telecommunications?

Mr. POMERANZ. Without being a telecommunications expert, Mr. Chairman, but on the basis of known fact, I would say there is no market in the entire world, with few exceptions, that is as open as the U.S. market. I think the problem is universal, really.

Senator DANFORTH. So your answer is no you don't think we have that?

Mr. POMERANZ. Right.

Senator DANFORTH. You said, Mr. Pomeranz—and I think you did too, Mr. Spievack—that we now have laws on the books which are not being effectively utilized. Were you referring to section 301 of the Trade Act?

Mr. SPIEVACK. Yes; I think as Senator Bentsen recognized earlier, Mr. Chairman, there is a problem. What the administration is negotiating at the present time is substantially different than what Congress is talking about. The administration is negotiating the elimination of restrictions, but it is not bringing very significant pressures to bear as we can see with respect to the ringing cash register.

That is a problem that really is not being dealt with in any significant sense. And that, of course, is the problem which this committee is attempting to deal with. So there are some very serious problems in terms of a trade policy in the administration.

Senator DANFORTH. But your belief is that we are not adequately enforcing existing laws, including section 301.

Mr. SPIEVACK. That is correct.

Senator DANFORTH. Do you agree with that, Mr. Pomeranz?

Mr. POMERANZ. I do, indeed.

Senator DANFORTH. Mr. Anderson?

Mr. ANDERSON. I believe 301 is adequate authority to deal with the problems.

Senator DANFORTH. Do you think we are using that authority now?

Mr. ANDERSON. I think the concern I have, Mr. Chairman, is how you go about dealing with the problems that obviously exist.

In answer to the last question, my judgment is no we don't have access to all markets. The question is do you do it in a mandated retaliatory type of way or do you do it through a negotiated way. In the Japanese context, I think we have seen progress, substantial progress.

Senator DANFORTH. Well, do you think there is any leverage to attain substantially equivalent competitive opportunities unless there is the credible threat of retaliation?

Mr. ANDERSON. You asked me that question when I was here 6 months ago, and I think in the 6-month period we have seen in the Japanese context significant progress. You just put your new bill in the hopper 2 weeks ago. I think the combination of the President's meeting with the Prime Minister—to resolutions passed by the Senate—to negotiations taken by the administration as a package are a significant leverage.

Senator DANFORTH. Well, how about with Europe and Canada and all the other problems in telecommunications? Maybe with Japan to enter into an agreement is to achieve results. I doubt it. But I—maybe it's all going to prove to be wonderful. But if it isn't, it would seem to me that to maintain the leverage is important and almost indisputible, as a matter of fact. Everything works out fine. But if it doesn't work out and if we have not achieved substantially equivalent competitive opportunities with other countries, it seems to me that we have to use leverage. Otherwise, to negotiate and then if things don't work out to say, well, that's too bad, we will do nothing about it, I don't think that that leads anywhere.

Mr. ANDERSON. Well, leverage clearly is the most important factor in negotiating. The question is does this bill give leverage or if passed, does it make a fait accompli and mandate retaliation. My concern is the mandated retaliation.

Senator DANFORTH. But the fact of the matter is—and all of you have testified to this—we haven't used section 301. If Congress doesn't mandate retaliation, the history has been no retaliation. We have only used section 301 to retaliate twice in our history and never against Japan, which would mean that it has been the position not only of this administration but other administrations that there has been no unfair trade practice so significant that it would lead us to retaliate against Japan. That clearly cannot be the case.

Mr. ANDERSON. Or, that negotiation is a better way to achieve those results than that action.

Senator DANFORTH. Well, it's a better way if it achieves substantially equivalent competitive opportunities, but I think that—I don't know if Mr. Spievack disagrees—but I would think that it's indisputible that there are not substantially equivalent opportunities with Japan across the board.

Mr. POMERANZ. Mr. Chairman, I would like to get away from SECO just a moment. What we are talking about are unreasonable trade restraints. We are talking about unfair trade practices. That is the approachable quantum. Section 301, I'm sure you would agree, is a vehicle for the executive branch of the Government to enter into meaningful conversations about those NTB's with the other governments.

No member of the executive branch deals in a vacuum. At the same time as he is talking about an opening of the market for telecommunications, he must be responsive as well to the needs of other industrial groups and other interests of the U.S. Government. And in the nature of the beast, it isn't easy to compartmentalize. And as one who has participated in a number of negotiations, I would suggest that through your oversight function you could very well bring the administration to a point where it is more actively pursuing the goal you are now talking about.

Mr. SPIEVACK. Mr. Chairman, may I comment? I have a bit of a different view of it. I think that there is a need for some leverage in foreign markets, and I think one of the most effective ways of working that leverage is through private initiative. And that initiative can come through our unfair trading practices laws.

One of the problems in those areas—for example, if you compare the international unfair trade practices law of Canada with the United States, what you find is that if a Canadian company brings a complaint against a foreign company or a foreign industry, the Canadian company doesn't have the burden of proof. The foreign industry or company has the burden of proof. It makes an awfully big difference and it's awfully hard, if not impossible, for a Canadian company to lose the case.

In the United States, American manufacturers are put at an enormous disadvantage under our law because they have the burden of proof and they can almost never make the case because of insufficiency of information and data and all the rest of that kind of thing.

I think that's an important area of law that this Congress needs to look at. And I think that would have a significant effect in terms of leveraging a market.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Spievack, your testimony is somewhat at odds with that of the other witnesses. I wasn't here for all of Mr. Campobasso's testimony and Mr. Davis', but as has been reported to me, they did not find that they had the substantially equivalent access to Japan, as you are testifying.

Then, also, you heard the testimony of the two witnesses before you, Mr. Wood and Mr. Morgan, and you give us the testimony on pages 3 and 4 of your statement, that the United States does not have enough telecommunications manufacturing plants to meet the U.S. demand.

Mr. SPIEVACK. That is correct.

Senator CHAFEE. And yet they just finished testifying that Western Electric, former Western Electric, is in the process of closing up plants and employment has gone from 55,000 to some 33,000.

Mr. SPIEVACK. Let me try and take those questions in order.

I am a bit surprised at Mr. Campobasso's testimony, and I'm going to make some efforts to talk to the Electronics Industry Association because I was at the industry advisory committee last week when their representatives were there. And everyone was in substantial agreement that the United States-Japan negotiations have been largely successful and that in the office products telecommunications area, most of the restrictions were now removed and were in the process of being finalized.

So I don't know who Mr. Campobasso was testifying for in terms of the American manufacturing industry. And I think it's worthwhile for all of us to find out.

Second, in terms of the Western Electric situation, it involves somewhat of a long history, Senator, but at the time of the carterfone, there was not a great deal of manufacturing telecommunications capability in the United States outside of Western Electric and GTE and Stomberg Carlson and a few minor players.

The U.S. industry did not take a great risk on this market with the result that foreign imports came in then and proceeded to develop over that period of time. In the process of divestiture and before it, plants were closing up in terms of efficiency and cost; not foreign imports. The Kerney plant that Mr. Wood referred to was an antiquated, inefficient plant and that's why AT&T closed it up.

Senator CHAFEE. Rather than debating the individual plants—I mean the testimony is to the effect that—what is it—32-to-1 trade imbalance as far as telecommunications sales with Japan?

Mr. SPIEVACK. No, no, no; 32 to 1 is the overall trade deficit with Japan.

Senator CHAFEE. I thought they gave it in terms of—I may be mistaken. I thought they restricted it—what was the figure? They gave it in terms of telecommunications.

Mr. SPIEVACK. That's incorrect. The deficit right now with Japan, if I remember the ITC figures for last year, were about $400 million.

Senator CHAFEE. Well, let me try this one on you. This telephone-telegraph equipment—and Lord knows what falls into that category—imports into the United States from Japan, $941 million, United States exports to Japan, $27 million. So that's a pretty substantial figure there. That's in the high thirties to one.

Mr. SPIEVACK. I don't know what that refers to. I can tell you, Senator, that in the industrial sector that we represent, which is the office telecommunications products—PBX, key systems, telephone stations and equipment and products of that type—that the deficit doesn't come close to that. It's more in the area of about $400 million.

Senator CHAFEE. Well, rather than having it in dollars, have it percentagewise. Versus what? What ratio? Put it in ratio, would you?

Mr. SPIEVACK. I'd have to get that for you.

Senator CHAFEE. Well, roughly.

Mr. SPIEVACK. I would guess about—I think 6 or 7 to 1.

Senator CHAFEE. All right. Then one of your four points concerns the Defense Department's export licensing policy and the effect that has on telecommunications sales to Japan. Japan is a member of Cocom.

Mr. SPIEVACK. Yes, it is.

Senator CHAFEE. And, frankly, in other testimony we have had here, that has not been raised as a problem.

Mr. SPIEVACK. I know. And I think that's a serious omission.

Senator CHAFEE. And it's been raised in connection with very sophisticated equipment, but not with Japan. This telecommunications equipment is—well, are you saying it falls under the restrictions imposed by the Defense Department?

Mr. SPIEVACK. Yes; my understanding, to give you an example, is that there are significant restrictions on the export of fiber optic systems out of the United States for national security reasons at the present time with countries like China. We place those restrictions, the products don't move out, but the similar products move from Japan into China, even though Japan is a member of Cocom. So we are just prejudicing our own industry.

Senator CHAFEE. As regards sales to Japan or as regards sales to China?

Mr. SPIEVACK. In that context, sales to China.

Senator CHAFEE. But we are talking about sales to Japan.

Mr. SPIEVACK. I don't know that—my understanding of the DOD restriction would also prevent that fiber optic sale into Japan for fear that the technology could be copied or used and sent on elsewhere. I could be wrong on that.

Senator CHAFEE. I don't want to belabor this, but you listed that as one of your principal four points, and I was questioning it on the basis of previous testimony we have had here.

Mr. Chairman, unfortunately, I have to go, but I appreciate this. And I am delighted you held these hearings.

Senator DANFORTH. Gentlemen, the witnesses on the first panel who represented various trade associations—we know the memberships of those associations. We don't know the membership of yours. Could you, for the record, supply us with a list of your members?

Mr. ANDERSON. Yes, we can.

Mr. SPIEVACK. We'd be delighted to.

Mr. POMERANZ. Yes.

[The information from Mr. Anderson, Mr. Spievack and Mr. Pomeranz follows:]

American Association of
Exporters and
Importers
11 West 42nd Street, New York, NY 10036 (212) 944-2230
Cable: AAOEXIM

EUGENE J. MELOSH
President

May 10, 1985

Senator Jack Danforth
U.S. Senate Finance Committee
Subcommittee on International Trade
SD-219 Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Senator Danforth:

On behalf of the American Association of Exporters and Importers, I thank you again for the opportunity to testify before the International Trade Subcommittee. In response to your request of our representative, Mr. Morton Pomerans, we have listed below AAEI members who manufacture and/or trade in telecommunications products.

I believe the list should be placed in the proper context vis-a-vis our testimony. Most of our telecommunications members met prior to the introduction of your bill S.942, and after S.728 was introduced by Senator Chafee, to recommend an Association position on the issue. In brief, the adopted policy was to support legislation which is intended to increase access to foreign markets for U.S. telecommunication products as long as the legislation is in accordance with our international obligations. The result, as evidenced in our testimony, was to support the goals and some of the provisions of S.942, while pointing out provisions that are inconsistent with our international obligations.

Frankly, a few of our members supported the bill in its entirety. However, the Association cannot support legislation which, if enacted, would create provisions of U.S. law that not only contravene the GATT, but would establish a method for any healthy domestic industry to shelter itself from competition. S.942 is a well intentioned bill and it is our hope to work with you and your committee on modifying the provisions which concern our telecommunications manufacturers and traders. In addition to the following U.S. companies we have a number of member law firms who represent telecommunications interests and, quite properly, have not disclosed the names of their clients to AAEI:

American Sun Moon Star
AT & T Technologies
Emerson Radio Corp.
Fujitsu, USA
General Electric Co.
GTE Services Corp.
IBM
ITT
Matsushita Electrical Corporation of America

Mitsui USA
Northern Telecom, Inc.
Sperry
TIE Communications

We look forward to working with you in the area of telecommunications trade.

Sincerely,

Eugene J Milosh

ANDERSON, HIBEY, NAUHEIM & BLAIR
1708 NEW HAMPSHIRE AVENUE, N. W.
WASHINGTON, D. C. 20009
(202) 483-1900

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A PARTNERSHIP OF PROFESSIONAL CORPORATIONS
ATTORNEY'S DIRECT DIAL NUMBER

TELEX: 248060
AHWB UR

May 3, 1985

Senator John Danforth
Chairman
International Trade Subcommittee
Senate Finance Committee
Room 219, DSOB
Washington, D.C. 20510

Dear Senator Danforth:

Pursuant to your request for a list of the members of the Communications Industry Association of Japan (CIA-J), I am enclosing a copy of CIA-J's membership list.

On behalf of CIA-J I want to thank you again for the opportunity to testify before the International Trade Subcommittee. If the Subcommittee should require any further information, please do not hesitate to contact me.

Sincerely yours,

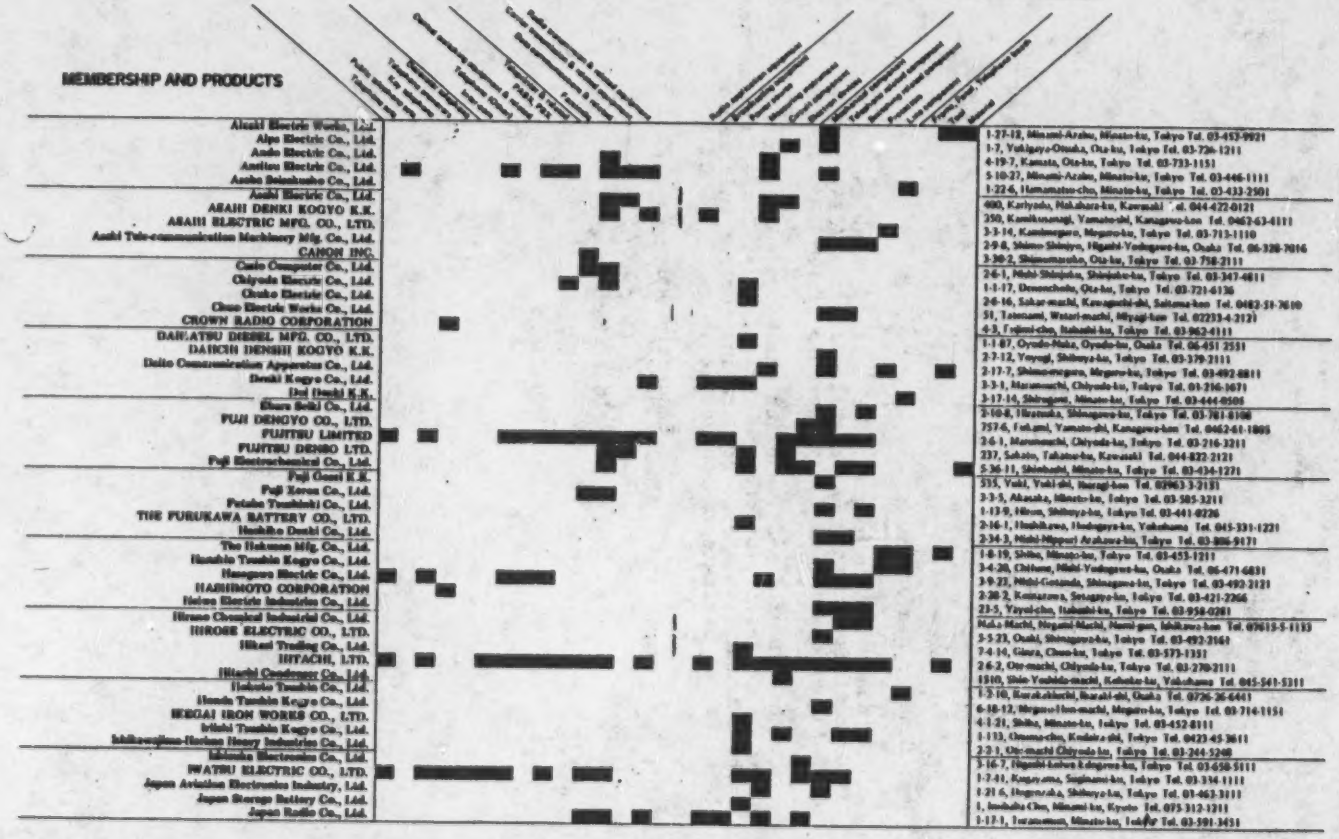
Eric I. Garfinkel

Enclosure

EIG:jlg

CIAJ

MEMBERSHIP LIST OF THE COMMUNICATIONS INDUSTRY ASSOCIATION OF JAPAN, (CIA-J)



1-27-12, Minami-Azabu, Minato-ku, Tokyo Tel. 03-452-9921
1-7, Yukigaya-Otsuka, Ota-ku, Tokyo Tel. 03-726-1211
4-19-7, Kamata, Ota-ku, Tokyo Tel. 03-733-1151
5-10-27, Minami-Azabu, Minato-ku, Tokyo Tel. 03-446-1111
1-22-6, Hamamatsu-cho, Minato-ku, Tokyo Tel. 03-433-2501

400, Kariyado, Nakahara-ku, Kawasaki Tel. 044-422-0121
350, Kamihonnogi, Yamato-shi, Kanagawa-ken Tel. 0462-63-6111
3-3-14, Kamimeguro, Meguro-ku, Tokyo Tel. 03-713-1110
2-9-8, Shimo-Shinjyo, Higashi-Yodogawa-ku, Osaka Tel. 06-328-7016
3-30-2, Shimomaruko, Ota-ku, Tokyo Tel. 03-758-2111

2-6-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo Tel. 03-347-6811
1-1-17, Omorihoke, Ota-ku, Tokyo Tel. 03-721-6136
2-6-16, Sakae-machi, Kawaguchi-shi, Saitama-ken Tel. 0482-51-7610
51, Tatenami, Wetari-machi, Miyagi-ken Tel. 02233-4-2121
4-3, Fujimi-cho, Kokubunji-shi, Tokyo Tel. 03-962-6111

1-1-87, Oyodo-Naka, Oyodo-ku, Osaka Tel. 06-451-2551
2-7-12, Yoyogi, Shibuya-ku, Tokyo Tel. 03-379-2111
2-17-7, Shimo-meguro, Meguro-ku, Tokyo Tel. 03-492-8811
3-3-1, Marunouchi, Chiyoda-ku, Tokyo Tel. 03-216-1671
3-17-14, Shirogane, Minato-ku, Tokyo Tel. 03-444-0505

2-10-8, Hatanaka, Shinagawa-ku, Tokyo Tel. 03-781-8108
757-6, Fukami, Yamato-shi, Kanagawa-ken Tel. 0462-61-1805
2-6-1, Marunouchi, Chiyoda-ku, Tokyo Tel. 03-216-3211
237, Sakato, Takatsu-ku, Kawasaki Tel. 044-822-2121
5-36-11, Shirokane, Minato-ku, Tokyo Tel. 03-434-1271

555, Yuki, Yuki-shi, Ibaragi-ken Tel. 02963-3-2131
3-3-5, Akasaka, Minato-ku, Tokyo Tel. 03-505-3211
1-13-9, Hiran, Shibuya-ku, Tokyo Tel. 03-441-0226
2-16-1, Hashikawa, Hodogaya-ku, Yokohama Tel. 045-331-1221
2-34-3, Nishi-Nippori Arakawa-ku, Tokyo Tel. 03-806-9171

1-8-19, Shiba, Minato-ku, Tokyo Tel. 03-453-1211
3-4-20, Chitose, Nishi-Yodogawa-ku, Osaka Tel. 06-471-6831
3-9-23, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-492-2121
2-20-2, Kamazawa, Setagaya-ku, Tokyo Tel. 03-421-2966
23-5, Yayoi-cho, Kokubunji-shi, Tokyo Tel. 03-958-0281

Nida-Machi, Nagaoi-Machi, Nami-gun, Ishikawa-ken Tel. 07615-5-1133
3-5-23, Osaki, Shinagawa-ku, Tokyo Tel. 03-492-2161
7-4-14, Ginza, Chuo-ku, Tokyo Tel. 03-573-1351
2-6-2, Otemachi, Chiyoda-ku, Tokyo Tel. 03-270-2111
1510, Shin-Yoshida-machi, Kohoku-ku, Yokohama Tel. 045-541-5311

1-2-10, Kuraka-shinchi, Ikarashi-shi, Osaka Tel. 0726-26-6441
6-18-12, Meguro-Hon-machi, Meguro-ku, Tokyo Tel. 03-714-1151
4-1-21, Shiba, Minato-ku, Tokyo Tel. 03-452-8111
1-113, Omura-cho, Kodaira-shi, Tokyo Tel. 0423-45-3611
2-2-1, Otemachi Chiyoda-ku, Tokyo Tel. 03-244-5240

3-16-7, Higashi-Ueno 4-chome-ku, Tokyo Tel. 03-836-5111
1-7-41, Kugayama, Suginami-ku, Tokyo Tel. 03-334-1111
1-21-6, Dogenzaka, Shibuya-ku, Tokyo Tel. 03-463-3111
1, Inobaba-Cho, Minami-ku, Kyoto Tel. 075-312-1211
1-17-1, Toranomon, Minato-ku, Tokyo Tel. 03-591-3451

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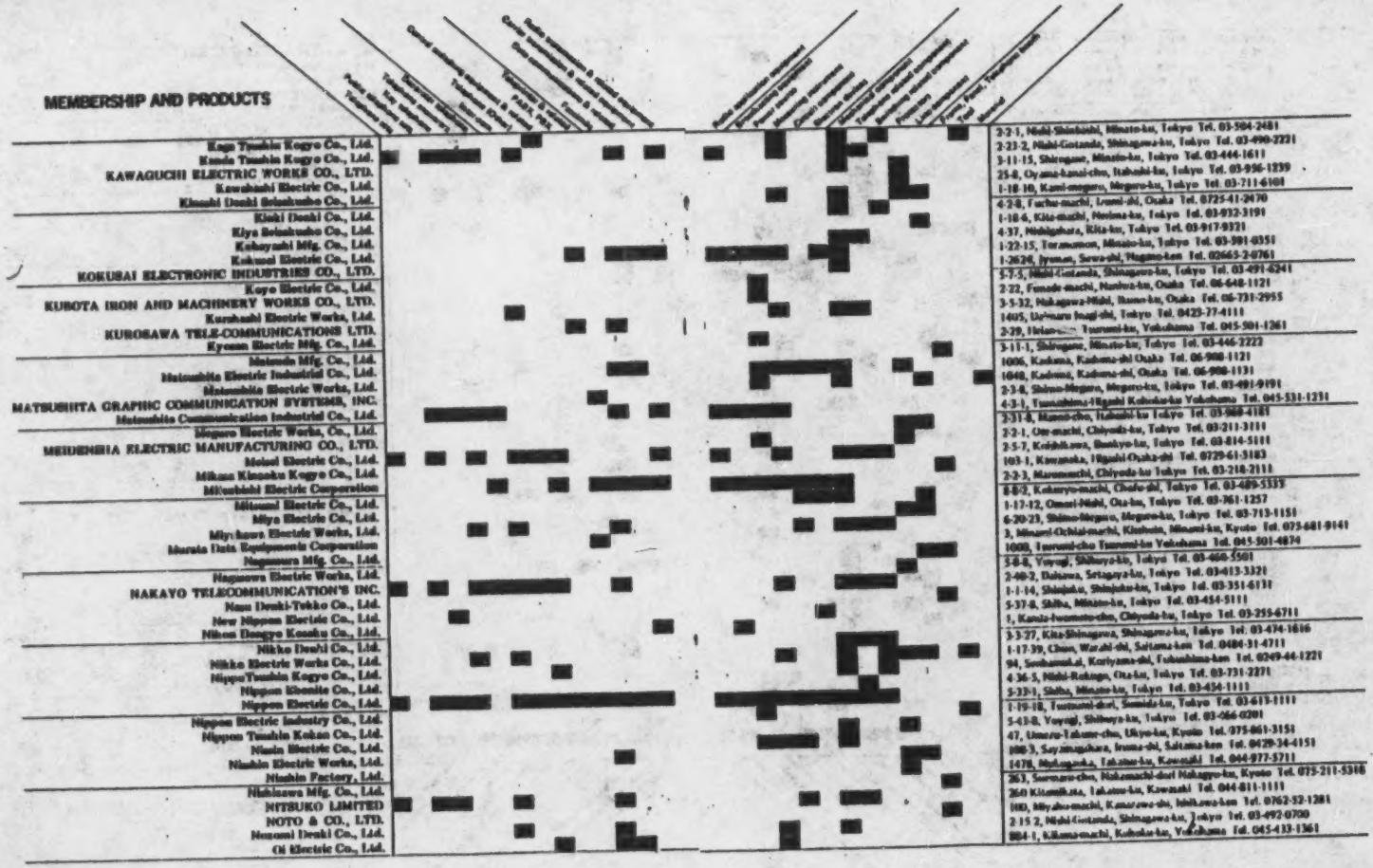
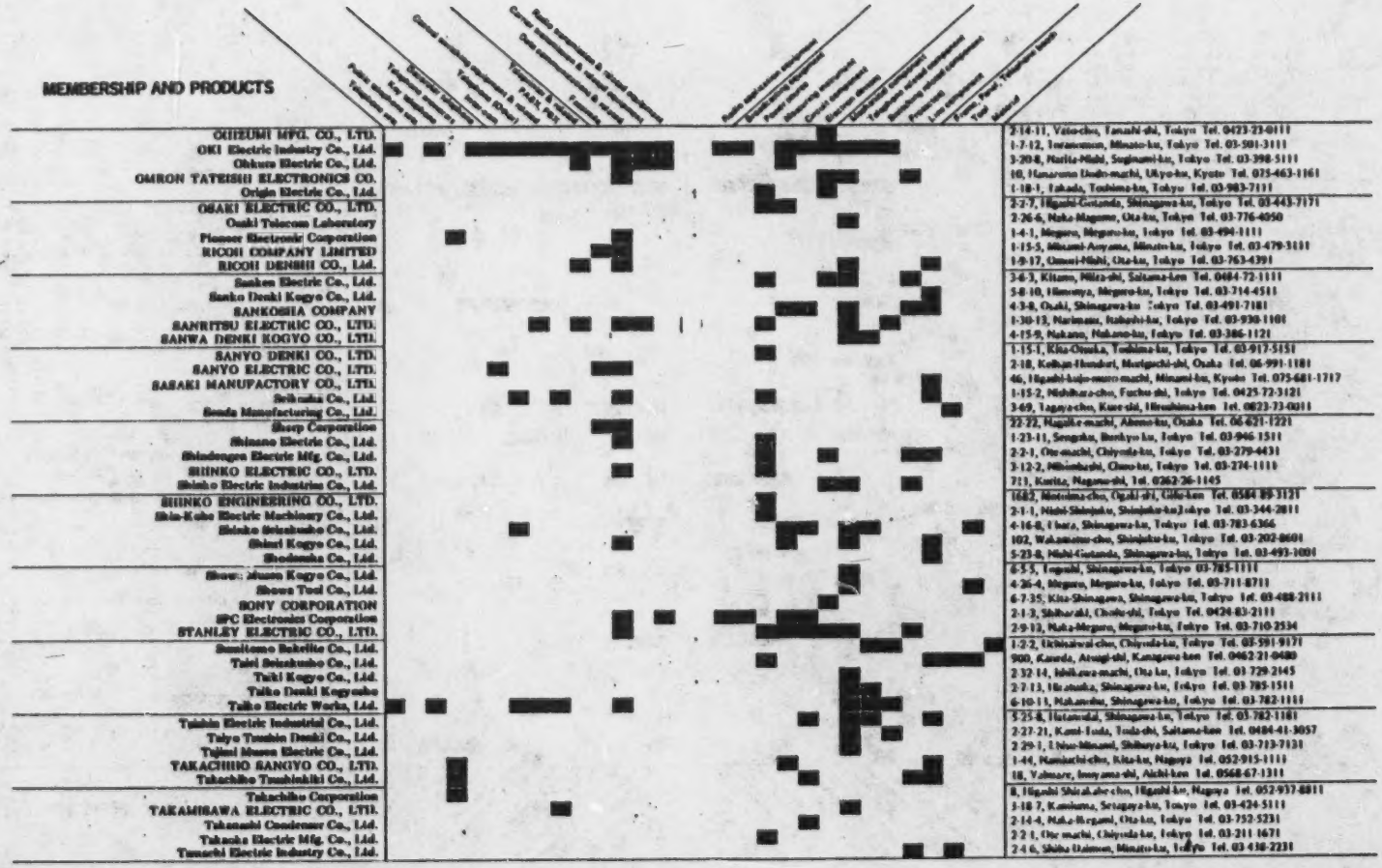
MEMBERSHIP AND PRODUCTS



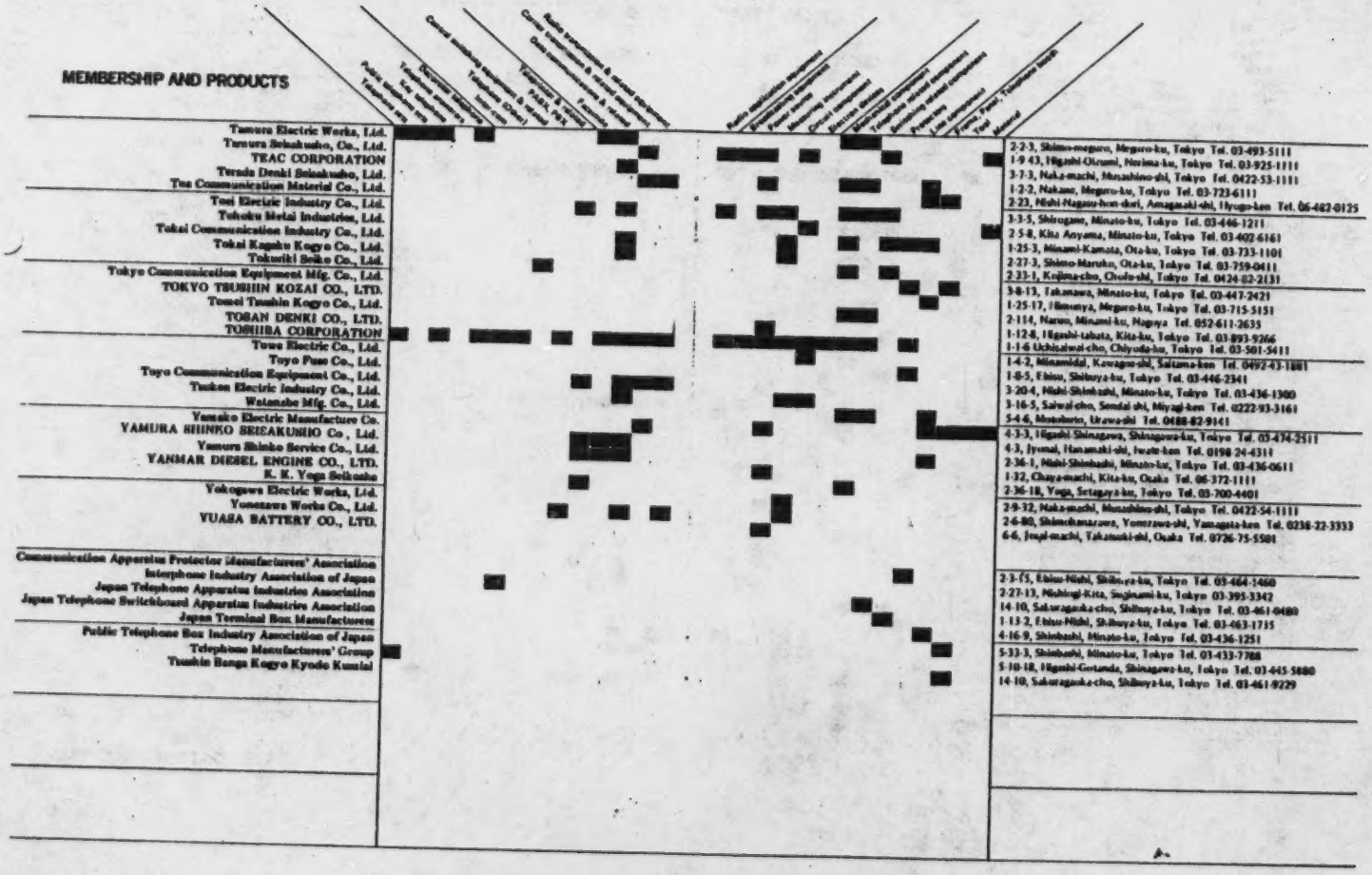
Kaga Tsushin Kogyo Co., Ltd.	2-2-1, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-504-2481
Kanda Tsushin Kogyo Co., Ltd.	2-23-2, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-490-2221
KAWAGUCHI ELECTRIC WORKS CO., LTD.	3-11-15, Shirogane, Minato-ku, Tokyo Tel. 03-444-1611
Kawahashi Electric Co., Ltd.	25-8, Oyama-kami-cho, Itabashi-ku, Tokyo Tel. 03-936-1239
Kitashi Denki Seisakusho Co., Ltd.	1-18-10, Kami-meguro, Meguro-ku, Tokyo Tel. 03-711-6101
Kishi Denki Co., Ltd.	4-2-8, Tsuchu-machi, Izumi-shi, Osaka Tel. 0725-41-2470
Kiya Seisakusho Co., Ltd.	1-18-6, Kita-machi, Nerima-ku, Tokyo Tel. 03-932-3191
Kobayashi Mfg. Co., Ltd.	4-37, Nishigahara, Kita-ku, Tokyo Tel. 03-917-9321
Kokusai Electric Co., Ltd.	1-22-15, Toranomon, Minato-ku, Tokyo Tel. 03-591-0351
KOKUSAI ELECTRONIC INDUSTRIES CO., LTD.	1-2624, Iyonan, Sawa-shi, Nagano-ken Tel. 02663-2-0761
Koyo Electric Co., Ltd.	5-7-5, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-491-8241
KUBOTA IRON AND MACHINERY WORKS CO., LTD.	2-22, Funade-machi, Naniwa-ku, Osaka Tel. 06-648-1121
Kurahashi Electric Works, Ltd.	3-5-32, Nakagawa-Nishi, Ibaraki-shi, Osaka Tel. 06-731-2955
KUROSAWA TELE-COMMUNICATIONS LTD.	1405, Uehara, Isogi-shi, Tokyo Tel. 0423-77-4111
Kyowa Electric Mfg. Co., Ltd.	2-29, Heiancho, Tsurumi-ku, Yokohama Tel. 045-501-1261
Maizuru Mfg. Co., Ltd.	3-11-1, Shirogane, Minato-ku, Tokyo Tel. 03-446-2222
Matsushita Electric Industrial Co., Ltd.	1006, Kadoma, Kadoma-shi Osaka Tel. 06-908-1121
Matsushita Electric Works, Ltd.	1048, Kadoma, Kadoma-shi, Osaka Tel. 06-908-1131
MATSUSHITA GRAPHIC COMMUNICATION SYSTEMS, INC.	2-3-8, Shimo-Meguro, Meguro-ku, Tokyo Tel. 03-491-9191
Matsushita Communication Industrial Co., Ltd.	4-3-1, Tsunashima-Higashi Kohoku-ku Yokohama Tel. 045-531-1251
Meguro Electric Works, Co., Ltd.	3-31-8, Marui-cho, Itabashi-ku Tokyo Tel. 03-968-4181
MEIDENSHA ELECTRIC MANUFACTURING CO., LTD.	2-2-1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-211-3111
Meisei Electric Co., Ltd.	2-5-7, Keihinhama, Bunkyo-ku, Tokyo Tel. 03-814-5111
Mikasa Kinzoku Kogyo Co., Ltd.	103-1, Kawanaka, Higashi-Osaka-shi Tel. 0729-61-5183
Mitsubishi Electric Corporation	2-2-3, Marunouchi, Chiyoda-ku Tokyo Tel. 03-218-2111
Mitsumi Electric Co., Ltd.	8-8-2, Kokuryo-machi, Chofu-shi, Tokyo Tel. 03-489-5333
Miya Electric Co., Ltd.	1-17-12, Omori-Nishi, Ota-ku, Tokyo Tel. 03-761-1257
Miyakawa Electric Works, Ltd.	6-20-23, Shimo-Meguro, Meguro-ku, Tokyo Tel. 03-713-1151
Murata Data Equipment Corporation	3, Minami-Ochiai-machi, Kitahata, Minami-ku, Kyoto Tel. 075-681-9141
Nagasawa Mfg. Co., Ltd.	1000, Tsurumi-cho Tsurumi-ku Yokohama Tel. 045-501-4874
Nagasawa Electric Works, Ltd.	3-8-8, Yoyogi, Shibuya-ku, Tokyo Tel. 03-466-5501
NAKAYO TELECOMMUNICATION'S INC.	2-40-2, Daizawa, Setagaya-ku, Tokyo Tel. 03-413-3321
Nasu Denki-Tekko Co., Ltd.	1-1-14, Shinjuku, Shinjuku-ku, Tokyo Tel. 03-351-6131
New Nippon Electric Co., Ltd.	5-37-8, Shiba, Minato-ku, Tokyo Tel. 03-454-5111
Nihon Dengyo Kosaku Co., Ltd.	1, Kanda-Iwamoto-cho, Chiyoda-ku, Tokyo Tel. 03-255-6711
Nikko Denki Co., Ltd.	3-3-27, Kita-Shinagawa, Shinagawa-ku, Tokyo Tel. 03-474-1616
Nikko Electric Works Co., Ltd.	1-17-39, Chuo, Warabi-shi, Saitama-ken Tel. 0484-31-4711
NippoTsushin Kogyo Co., Ltd.	94, Sendaimati, Koriyama-shi, Fukushima-ken Tel. 0249-44-1221
Nippon Kinzoku Co., Ltd.	4-36-5, Nishi-Rokugo, Ota-ku, Tokyo Tel. 03-731-2271
Nippon Electric Co., Ltd.	5-33-1, Shiba, Minato-ku, Tokyo Tel. 03-454-1111
Nippon Electric Industry Co., Ltd.	1-19-18, Tsumori-dori, Sumida-ku, Tokyo Tel. 03-613-1111
Nippon Tsushin Kohan Co., Ltd.	5-43-8, Yoyogi, Shibuya-ku, Tokyo Tel. 03-466-0201
Nisin Electric Co., Ltd.	47, Umezu-Takase-cho, Ukyo-ku, Kyoto Tel. 075-861-3151
Nishin Electric Works, Ltd.	100-3, Sayamagahara, Iruma-shi, Saitama-ken Tel. 0429-34-4151
Nishin Factory, Ltd.	1478, Nakagawa-ka, Tokutsu-ku, Kawasaki Tel. 044-977-5711
Nishizawa Mfg. Co., Ltd.	263, Suematsu-cho, Nakamachi-dori Nakagyo-ku, Kyoto Tel. 075-211-5316
NITSUKO LIMITED	260 Kitamikata, Takatsu-ku, Kawasaki Tel. 044-811-1111
NOTO & CO., LTD.	180, Miyabe-machi, Kanazawa-shi, Ishikawa-ken Tel. 0762-52-1281
Nozomi Denki Co., Ltd.	2-15-2, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-492-0700
Oi Electric Co., Ltd.	884-1, Kikuna-machi, Kohoku-ku, Yokohama Tel. 045-433-1361

MEMBERSHIP AND PRODUCTS



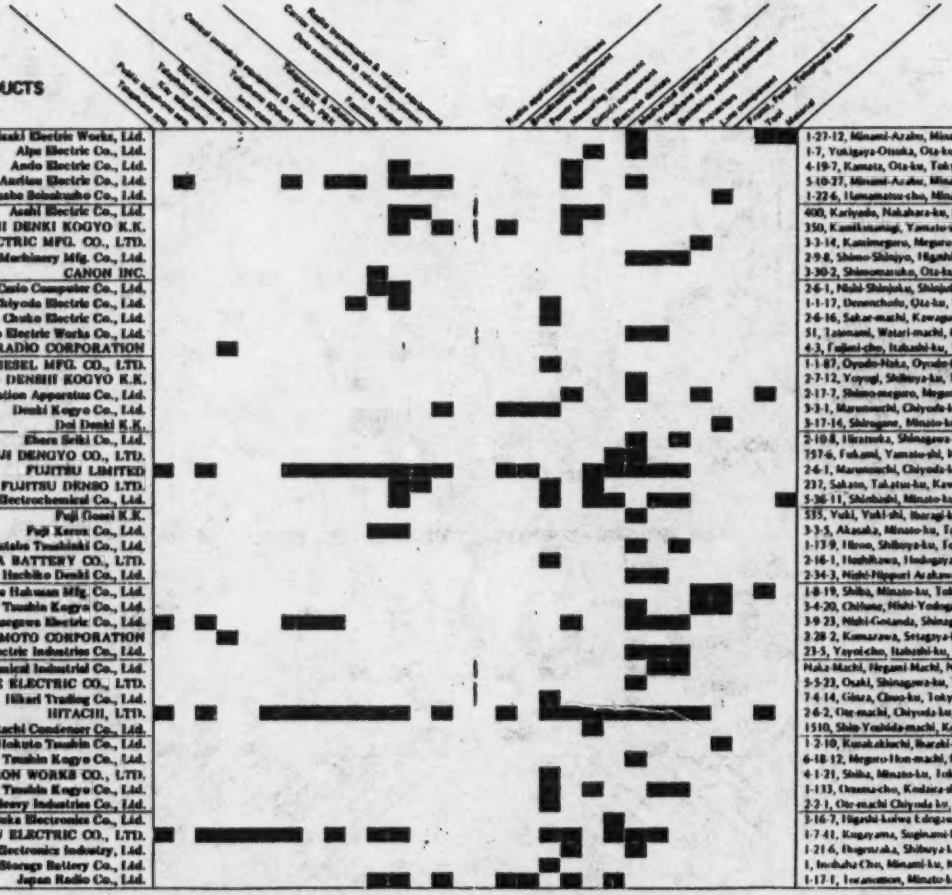
OHIZUMI MFG. CO., LTD.	2-14-11, Yato-cho, Tanashi-shi, Tokyo Tel. 0423-23-0111
OKI Electric Industry Co., Ltd.	1-7-12, Toranomon, Minato-ku, Tokyo Tel. 03-501-3111
Ohkura Electric Co., Ltd.	3-20-8, Hatsudai, Shibuya-ku, Tokyo Tel. 03-370-0611
OMRON TATEISHI ELECTRONICS CO.	10, Tsuzuruma Undo-machi, Ukyo-ku, Kyoto Tel. 075-463-1161
Origin Electric Co., Ltd.	1-18-1, Takada, Toshima-ku, Tokyo Tel. 03-983-7111
OSAKI ELECTRIC CO., LTD.	2-2-7, Higashi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-443-7171
Osaki Telecom Laboratory	2-26-6, Naka-Meguro, Ota-ku, Tokyo Tel. 03-776-4050
Pioneer Electronic Corporation	1-4-1, Meguro, Meguro-ku, Tokyo Tel. 03-494-1111
RICOH COMPANY LIMITED	1-15-5, Minami-Aoyama, Minato-ku, Tokyo Tel. 03-479-3111
RICOH DENSHI CO., Ltd.	1-9-17, Omori-Nishi, Ota-ku, Tokyo Tel. 03-763-4391
Sanken Electric Co., Ltd.	3-6-3, Kitano, Niiza-shi, Saitama-ken Tel. 0484-72-1111
Sanko Denki Kogyo Co., Ltd.	5-8-10, Hiromiya, Meguro-ku, Tokyo Tel. 03-714-4511
SANKOSHA COMPANY	4-3-8, Osaki, Shinagawa-ku Tokyo Tel. 03-491-7181
SANRITSU ELECTRIC CO., LTD.	1-30-13, Narimune, Fukuchi-ku, Tokyo Tel. 03-930-1101
SANWA DENKI KOGYO CO., LTD.	4-15-9, Nakano, Nakano-ku, Tokyo Tel. 03-386-1121
SANYO DENKI CO., LTD.	1-15-1, Kita-Otsuka, Toshima-ku, Tokyo Tel. 03-917-5151
SANYO ELECTRIC CO., LTD.	2-18, Keihan-Hondori, Moriguchi-shi, Osaka Tel. 06-991-1181
SASAKI MANUFACTORY CO., LTD.	46, Higashi-kujo-muro-machi, Minami-ku, Kyoto Tel. 075-681-1717
Seikosha Co., Ltd.	1-15-2, Nishihara-cho, Fuchu-shi, Tokyo Tel. 0425-72-3121
Senda Manufacturing Co., Ltd.	3-69, Tagaya-cho, Kure-shi, Hiroshima-ken Tel. 0823-73-0311
Sharp Corporation	22-22, Nagaike-machi, Abeno-ku, Osaka Tel. 06-621-1221
Shimano Electric Co., Ltd.	1-23-11, Senzoku, Bunkyo-ku, Tokyo Tel. 03-946-1511
Shindengen Electric Mfg. Co., Ltd.	2-2-1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-279-4431
SHINKO ELECTRIC CO., LTD.	3-12-2, Nihonbashi, Chuo-ku, Tokyo Tel. 03-274-1111
Shinko Electric Industries Co., Ltd.	711, Kuriu, Nagano-shi, Tel. 0262-26-1145
SHINKO ENGINEERING CO., LTD.	1682, Motoima-cho, Ogaki-shi, Gifu-ken Tel. 0584-89-3121
Shin-Keisu Electric Machinery Co., Ltd.	2-1-1, Nishi-Shinjuku, Shinjuku-ku Tokyo Tel. 03-344-2811
Shinko Seisakusho Co., Ltd.	4-16-8, Ebara, Shinagawa-ku, Tokyo Tel. 03-783-6366
Shinri Kogyo Co., Ltd.	102, Wakamatsu-cho, Shinjuku-ku, Tokyo Tel. 03-202-0601
Shoden Co., Ltd.	5-23-8, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-493-1001
Showa Denko Kogyo Co., Ltd.	6-5-5, Togoshi, Shinagawa-ku, Tokyo 03-785-1111
Showa Tool Co., Ltd.	4-26-4, Meguro, Meguro-ku, Tokyo Tel. 03-711-8711
SONY CORPORATION	6-7-35, Kita-Shinagawa, Shinagawa-ku, Tokyo Tel. 03-488-2111
SPC Electronics Corporation	2-1-3, Shibaraki, Chofu-shi, Tokyo Tel. 0424-83-2111
STANLEY ELECTRIC CO., LTD.	2-9-13, Naka-Meguro, Meguro-ku, Tokyo Tel. 03-710-2534
Sumitomo Bakelite Co., Ltd.	1-2-2, Ochiai-dai-cho, Chiyoda-ku, Tokyo Tel. 03-591-9171
Taisei Seisakusho Co., Ltd.	900, Kaneda, Atsugi-shi, Kanagawa-ken Tel. 0462-21-0480
Taiki Kogyo Co., Ltd.	2-32-14, Ishikawa-machi, Ota-ku, Tokyo Tel. 03-729-2145
Taiko Denki Kogyosho	2-7-13, Hiratsuka, Shinagawa-ku, Tokyo Tel. 03-785-1511
Taiko Electric Works, Ltd.	6-10-13, Nakanobu, Shinagawa-ku, Tokyo Tel. 03-782-1111
Takhin Electric Industrial Co., Ltd.	5-25-8, Hatanodai, Shinagawa-ku, Tokyo Tel. 03-782-1181
Takyo Tsushin Denki Co., Ltd.	2-27-21, Kami-Ieda, Toda-shi, Saitama-ken Tel. 0484-41-3057
Tajimi Musen Electric Co., Ltd.	2-29-1, Ebisu-Minami, Shibuya-ku, Tokyo Tel. 03-713-7131
TAKACHIHO SANGYO CO., LTD.	1-44, Marunouchi-cho, Kita-ku, Nagoya Tel. 052-915-1111
Takachiho Tsushinkiki Co., Ltd.	18, Yahagare, Inuyama-shi, Aichi-ken Tel. 0568-67-1311
Takachiho Corporation	8, Higashi Shirakabe-cho, Higashi-ku, Nagoya Tel. 052-937-8811
TAKAMISAWA ELECTRIC CO., LTD.	3-18-7, Kamiuma, Setagaya-ku, Tokyo Tel. 03-424-5111
Takanashi Condenser Co., Ltd.	2-14-4, Naka-Megami, Ota-ku, Tokyo Tel. 03-752-5231
Takaoka Electric Mfg. Co., Ltd.	2-2-1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-211-1671
Tamachi Electric Industry Co., Ltd.	2-4-6, Shiba-Daimon, Minato-ku, Tokyo Tel. 03-438-2231

MEMBERSHIP AND PRODUCTS



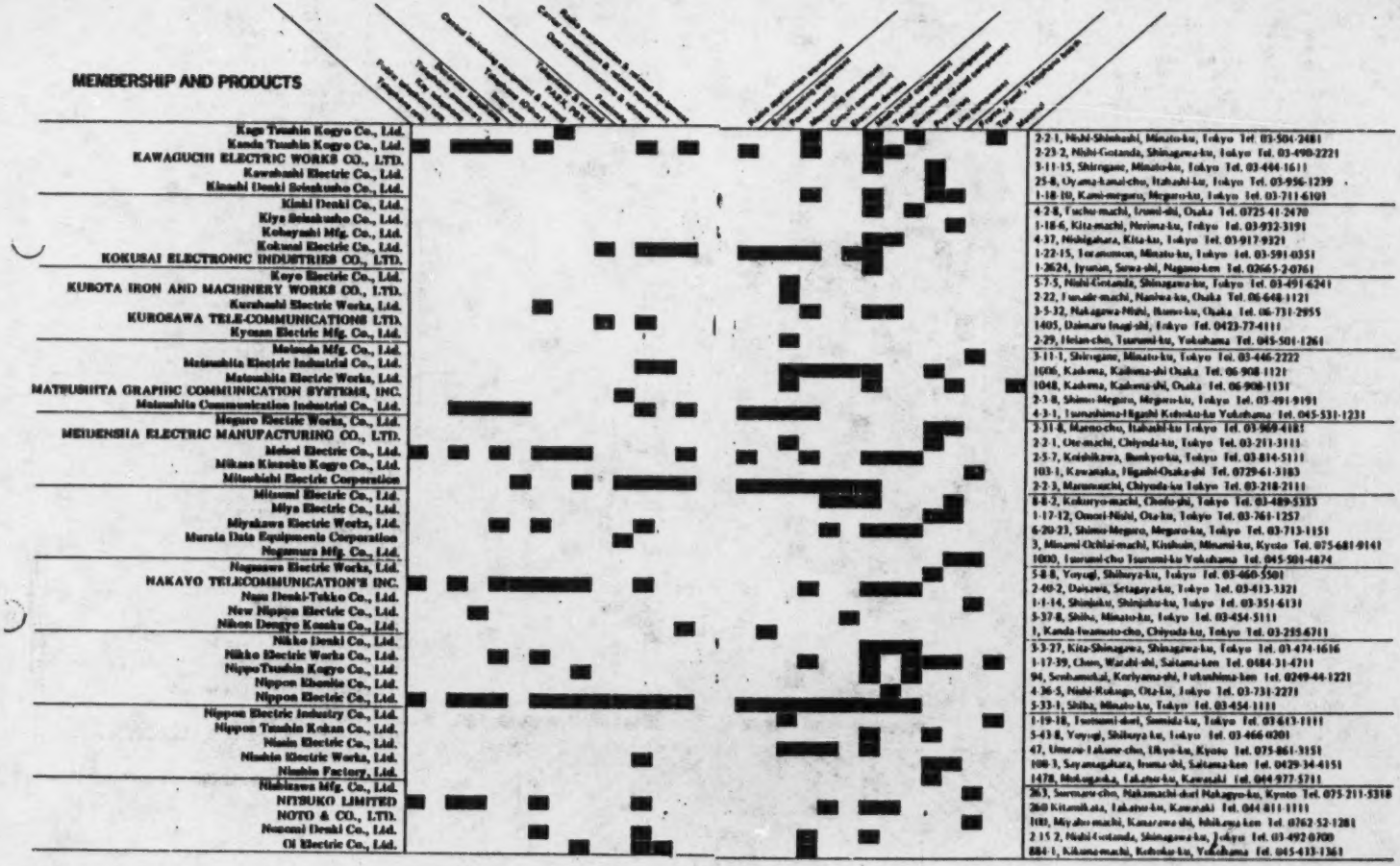
Tamura Electric Works, Ltd.	2-2-3, Shimo-meguro, Meguro-ku, Tokyo Tel. 03-493-5111
Tamura Seisakusho, Co., Ltd.	1-9-43, Higashi-Oizumi, Nerima-ku, Tokyo Tel. 03-925-1111
TEAC CORPORATION	3-7-3, Naka-machi, Musashino-shi, Tokyo Tel. 0422-53-1111
Terada Denki Seisakusho, Ltd.	1-2-2, Nakane, Meguro-ku, Tokyo Tel. 03-723-6111
Tes Communication Material Co., Ltd.	2-23, Nishi-Nagasu-hon-dori, Amagasaki-shi, Hyogo-ken Tel. 06-482-0125
Tesi Electric Industry Co., Ltd.	3-3-5, Shirogane, Minato-ku, Tokyo Tel. 03-446-1211
Tohoku Metal Industries, Ltd.	2-5-8, Kita Aoyama, Minato-ku, Tokyo Tel. 03-402-6161
Tokai Communication Industry Co., Ltd.	1-25-3, Minami-Kamata, Ota-ku, Tokyo Tel. 03-733-1101
Tokai Kagaku Kogyo Co., Ltd.	2-27-3, Shimo-Maruko, Ota-ku, Tokyo Tel. 03-759-0411
Tokuriki Seiko Co., Ltd.	2-33-1, Kojima-cho, Chofu-shi, Tokyo Tel. 0424-82-2131
Tokyo Communication Equipment Mfg. Co., Ltd.	3-8-13, Takanawa, Minato-ku, Tokyo Tel. 03-447-2421
TOKYO TSUSHIN KOZAI CO., LTD.	1-25-17, Hiranuma, Meguro-ku, Tokyo Tel. 03-715-5151
Tomei Tsushin Kogyo Co., Ltd.	2-114, Narao, Minami-ku, Nagoya Tel. 052-611-2635
TOSAN DENKI CO., LTD.	1-12-8, Higashi-takata, Kita-ku, Tokyo Tel. 03-893-9266
TOSHIBA CORPORATION	1-1-6 Uchisaiwai-cho, Chiyoda-ku, Tokyo Tel. 03-501-5411
Towa Electric Co., Ltd.	1-4-2, Minamidai, Kawaguchi-shi, Saitama-ken Tel. 0482-43-1881
Toyo Fuse Co., Ltd.	1-8-5, Ebisu, Shibuya-ku, Tokyo Tel. 03-446-2341
Toyo Communication Equipment Co., Ltd.	3-20-4, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-436-1300
Tsuken Electric Industry Co., Ltd.	3-16-5, Saiwai-cho, Sendai-shi, Miyagi-ken Tel. 0222-93-3161
Watanabe Mfg. Co., Ltd.	5-4-6, Motohoto, Utsuwa-shi Tel. 0488-82-9141
Yamako Electric Manufacture Co.	4-3-3, Higashi Shinagawa, Shinagawa-ku, Tokyo Tel. 03-474-2511
YAMURA SHINKO SEISAKUSHO Co., Ltd.	4-3, Iyomai, Hanamaki-shi, Iwate-ken Tel. 0198 24-4311
Yamura Shinko Service Co., Ltd.	2-36-1, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-436-0611
YANMAR DIESEL ENGINE CO., LTD.	1-32, Chaya-machi, Kita-ku, Osaka Tel. 06-372-1111
K. K. Yaqa Seikosho	2-26-18, Yaqa, Setagaya-ku, Tokyo Tel. 03-700-4401
Yokogawa Electric Works, Ltd.	2-9-32, Naka-machi, Musashino-shi, Tokyo Tel. 0422-54-1111
Yonezawa Works Co., Ltd.	2-6-80, Shimohanazawa, Yonezawa-shi, Yamagata-ken Tel. 0238-22-3333
YUASA BATTERY CO., LTD.	6-6, Josai-machi, Takatsuki-shi, Osaka Tel. 0726-75-5501
Communication Apparatus Protector Manufacturers' Association	2-3-15, Ebisu-Nishi, Shibuya-ku, Tokyo Tel. 03-464-1460
Interphone Industry Association of Japan	2-27-13, Mishuqi-Kita, Suginami-ku, Tokyo 03-395-3342
Japan Telephone Apparatus Industries Association	14-10, Sakuragaoka-cho, Shibuya-ku, Tokyo Tel. 03-461-0480
Japan Telephone Switchboard Apparatus Industries Association	1-13-2, Ebisu-Nishi, Shibuya-ku, Tokyo Tel. 03-463-1715
Japan Terminal Box Manufacturers	4-16-9, Shinbashi, Minato-ku, Tokyo Tel. 03-436-1251
Public Telephone Box Industry Association of Japan	5-33-3, Shinbashi, Minato-ku, Tokyo Tel. 03-433-7788
Telephone Manufacturers' Group	5-10-18, Higashi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-445-5880
Tsushin Buqu Kogyo Kyodo Kumiai	14-10, Sakuragaoka-cho, Shibuya-ku, Tokyo Tel. 03-461-9229

MEMBERSHIP AND PRODUCTS



Akaki Electric Works, Ltd.	1-27-12, Minami-Azabu, Minato-ku, Tokyo Tel. 03-453-9921
Alps Electric Co., Ltd.	1-7, Yukigaya-Otsuka, Ota-ku, Tokyo Tel. 03-726-1211
Ando Electric Co., Ltd.	4-19-7, Kamata, Ota-ku, Tokyo Tel. 03-733-1151
Anritsu Electric Co., Ltd.	5-10-27, Minami-Azabu, Minato-ku, Tokyo Tel. 03-446-1111
Asaba Seisakusho Co., Ltd.	1-22-6, Hamamatsu-cho, Minato-ku, Tokyo Tel. 03-433-2501
Asahi Electric Co., Ltd.	400, Kariyado, Nakahara-ku, Kawasaki Tel. 044-422-0121
ASAHI DENKI KOGYO K.K.	350, Kamikurumagi, Yamato-shi, Kanagawa-ken Tel. 0467-63-4111
ASAHI ELECTRIC MFG. CO., LTD.	3-3-14, Kamimeguro, Meguro-ku, Tokyo Tel. 03-713-1110
Asahi Tele-communication Machinery Mfg. Co., Ltd.	2-9-8, Shimo-Shinjyo, Higashi-Yodogawa-ku, Osaka Tel. 06-328-7056
CANON INC.	3-30-2, Shimomaruko, Ota-ku, Tokyo Tel. 03-758-2111
Casio Computer Co., Ltd.	2-6-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo Tel. 03-347-4811
Chiyoda Electric Co., Ltd.	1-1-17, Denenchofu, Ota-ku, Tokyo Tel. 03-721-6136
Chuko Electric Co., Ltd.	2-6-16, Sakae-machi, Kawaguchi-shi, Saitama-ken Tel. 0482-51-7610
Chuo Electric Works Co., Ltd.	51, Tatenami, Watari-machi, Miyagi-ken Tel. 02233-4-2121
CROWN RADIO CORPORATION	4-3, Fujimi-cho, Itabashi-ku, Tokyo Tel. 03-963-4111
DAIHATSU DIESEL MFG. CO., LTD.	1-1-87, Oyodo-Naka, Oyodo-ku, Osaka Tel. 06-451-2551
DAIICHI DENSHI KOGYO K.K.	2-7-12, Yoyogi, Shibuya-ku, Tokyo Tel. 03-379-2111
Daito Communication Apparatus Co., Ltd.	2-17-7, Shimo-meguro, Meguro-ku, Tokyo Tel. 03-492-8811
Denki Kogyo Co., Ltd.	3-3-1, Marunouchi, Chiyoda-ku, Tokyo Tel. 03-216-1671
Dai Denki K.K.	3-17-14, Shirogane, Minato-ku, Tokyo Tel. 03-444-0505
Ebara Seiki Co., Ltd.	2-10-8, Hiranuma, Shinagawa-ku, Tokyo Tel. 03-781-8108
FUJI DENGYO CO., LTD.	757-6, Fukami, Yamato-shi, Kanagawa-ken Tel. 0462-61-1805
FUJITSU LIMITED	2-6-1, Marunouchi, Chiyoda-ku, Tokyo Tel. 03-216-3211
FUJITSU DENSO LTD.	237, Sakato, Takatsu-ku, Kawasaki Tel. 044-822-2121
Fuji Electrochemical Co., Ltd.	5-36-11, Shimbashi, Minato-ku, Tokyo Tel. 03-434-1271
Fuji Gasei K.K.	555, Yuki, Yuki-shi, Ibaragi-ken Tel. 02963-3-2131
Fuji Xerox Co., Ltd.	3-3-5, Akasaka, Minato-ku, Tokyo Tel. 03-585-3211
Futaba Tsushinki Co., Ltd.	1-13-9, Hiroo, Shibuya-ku, Tokyo Tel. 03-441-0226
THE FURUKAWA BATTERY CO., LTD.	2-16-1, Hashikawa, Hodogaya-ku, Yokohama Tel. 045-331-1221
Hachiko Denki Co., Ltd.	2-34-3, Nishi-Nippori Arakawa-ku, Tokyo Tel. 03-806-9171
The Hakusan Mfg. Co., Ltd.	1-8-19, Shiba, Minato-ku, Tokyo Tel. 03-453-1211
Hanchin Tsushin Kogyo Co., Ltd.	3-4-20, Chitose, Nishi-Yodogawa-ku, Osaka Tel. 06-471-6831
Hasegawa Electric Co., Ltd.	3-9-23, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-492-2121
HASHIMOTO CORPORATION	2-28-2, Kamurawa, Setagaya-ku, Tokyo Tel. 03-421-2366
Haiwa Electric Industries Co., Ltd.	23-5, Yayoi-cho, Itabashi-ku, Tokyo Tel. 03-958-0281
Hirano Chemical Industrial Co., Ltd.	Naka Machi, Hegami Machi, Nomi-gun, Ishikawa-ken Tel. 07615-5-1133
HIROSE ELECTRIC CO., LTD.	5-5-23, Osaki, Shinagawa-ku, Tokyo Tel. 03-492-2161
Hikari Trading Co., Ltd.	7-4-14, Ginza, Chuo-ku, Tokyo Tel. 03-573-1351
HITACHI, LTD.	2-6-2, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-270-2111
Hitachi Condenser Co., Ltd.	1510, Shin-Yoshida-machi, Kohoku-ku, Yokohama Tel. 045-541-5311
Hokuto Tsushin Co., Ltd.	1-2-10, Kanakahashi, Ibaraki-shi, Osaka Tel. 0726-26-6441
Honda Tsushin Kogyo Co., Ltd.	6-18-12, Meguro-Hon-machi, Meguro-ku, Tokyo Tel. 03-714-1151
IKEGAI IRON WORKS CO., LTD.	4-1-21, Shiba, Minato-ku, Tokyo Tel. 03-452-8111
Iriki Tsushin Kogyo Co., Ltd.	1-133, Ozuma-cho, Kodaira-shi, Tokyo Tel. 0423-45-3611
Ishikawajima-Harima Heavy Industries Co., Ltd.	2-2-1, Ote-machi Chiyoda-ku, Tokyo Tel. 03-244-5248
Ishizaka Electronics Co., Ltd.	3-16-7, Higashi-koiwa Edogawa-ku, Tokyo Tel. 03-658-5111
IWATSU ELECTRIC CO., LTD.	1-7-41, Kugayama, Suginami-ku, Tokyo Tel. 03-334-1111
Japan Aviation Electronics Industry, Ltd.	1-21-6, Ikenoue-saka, Shibuya-ku, Tokyo Tel. 03-463-3111
Japan Storage Battery Co., Ltd.	1, Inobaba-Cho, Minami-ku, Kyoto Tel. 075-312-1211
Japan Radio Co., Ltd.	1-17-1, Toranomon, Minato-ku, Tokyo Tel. 03-591-3451

MEMBERSHIP AND PRODUCTS



Kaga Tsushin Kogyo Co., Ltd.	2-2 1, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-504-2481
Kanda Tsushin Kogyo Co., Ltd.	2-23 2, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-490-2221
KAWAGUCHI ELECTRIC WORKS CO., LTD.	3-11-15, Shirogane, Minato-ku, Tokyo Tel. 03-444-1611
Kawahashi Electric Co., Ltd.	25-8, Oyama-kami-cho, Itabashi-ku, Tokyo Tel. 03-956-1239
Kinashi Denki Seisakusho Co., Ltd.	1-18-10, Kami-meguro, Meguro-ku, Tokyo Tel. 03-711-6101
Kinki Denki Co., Ltd.	4-2-8, Tsuchu-machi, Izumi-shi, Osaka Tel. 0725-41-2470
Kiya Seisakusho Co., Ltd.	1-18-6, Kita-machi, Nerima-ku, Tokyo Tel. 03-932-3191
Kobayashi Mfg. Co., Ltd.	4-37, Nishigahara, Kita-ku, Tokyo Tel. 03-917-9321
Kokusai Electric Co., Ltd.	1-22-15, Toranomon, Minato-ku, Tokyo Tel. 03-591-0351
KOKUSAI ELECTRONIC INDUSTRIES CO., LTD.	1-2624, Iyotan, Sowa-shi, Nagano-ken Tel. 02665-2-0761
Koyo Electric Co., Ltd.	5-7-5, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-491-6241
KUBOTA IRON AND MACHINERY WORKS CO., LTD.	2-22, Funade-machi, Naniwa-ku, Osaka Tel. 06-648-1121
Kurahashi Electric Works, Ltd.	3-5-32, Nakagawa-Nishi, Hanei-ku, Osaka Tel. 06-731-2955
KUROSAWA TELE-COMMUNICATIONS LTD.	1405, Daimaru Inagi-shi, Tokyo Tel. 0423-77-4111
Kyowa Electric Mfg. Co., Ltd.	2-29, Heian-cho, Tsurumi-ku, Yokohama Tel. 045-501-1261
Maisoda Mfg. Co., Ltd.	3-11-1, Shirogane, Minato-ku, Tokyo Tel. 03-446-2222
Matsushita Electric Industrial Co., Ltd.	1006, Kadoma, Kadoma-shi Osaka Tel. 06 908 1121
Matsushita Electric Works, Ltd.	1048, Kadoma, Kadoma-shi, Osaka Tel. 06-908-1131
MATSUSHITA GRAPHIC COMMUNICATION SYSTEMS, INC.	2-18, Shimo-Meguro, Meguro-ku, Tokyo Tel. 03-491-9191
Matsushita Communication Industrial Co., Ltd.	4-3-1, Tsunashima-Higashi Kohoku-ku Yokohama Tel. 045-531-1231
Meguro Electric Works, Co., Ltd.	3-31-8, Marno-cho, Itabashi-ku Tokyo Tel. 03-969-4181
MEIDENSHA ELECTRIC MANUFACTURING CO., LTD.	2-2 1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-211-3111
Meisei Electric Co., Ltd.	2-5-7, Keihanhara, Bunkyo-ku, Tokyo Tel. 03-814-5111
Mikasa Kinzoku Kogyo Co., Ltd.	103-1, Kawanaka, Higashi-Osaka-shi Tel. 0729-61-3183
Mitsubishi Electric Corporation	2-2 3, Marunouchi, Chiyoda-ku Tokyo Tel. 03-218-2111
Mitsumi Electric Co., Ltd.	8-8-2, Kokuryo-machi, Chofu-shi, Tokyo Tel. 03-489-5333
Miya Electric Co., Ltd.	1-17-12, Omori-Nishi, Ota-ku, Tokyo Tel. 03-761-1257
Miyakawa Electric Works, Ltd.	6-20-23, Shimo-Meguro, Meguro-ku, Tokyo Tel. 03-713-1151
Murata Data Equipments Corporation	3, Minami-Ochiai-machi, Kitshuin, Minami-ku, Kyoto Tel. 075-681-9141
Nagamura Mfg. Co., Ltd.	1000, Tsurumi-chu Tsurumi-ku Yokohama Tel. 045-501-4874
Nagasawa Electric Works, Ltd.	5-8 8, Yoyogi, Shibuya-ku, Tokyo Tel. 03-460-5501
NAKAYO TELECOMMUNICATION'S INC.	2-40-2, Daizawa, Setagaya-ku, Tokyo Tel. 03-413-3321
Nasu Denki-Tekko Co., Ltd.	1-1-16, Shinjuku, Shinjuku-ku, Tokyo Tel. 03-351-6131
New Nippon Electric Co., Ltd.	5-37-8, Shiba, Minato-ku, Tokyo Tel. 03-454-5111
Nihon Dengyo Kosaku Co., Ltd.	1, Kanda-Iwamoto-cho, Chiyoda-ku, Tokyo Tel. 03-255-6711
Nikko Denki Co., Ltd.	3-3-27, Kita-Shinagawa, Shinagawa-ku, Tokyo Tel. 03-474-1616
Nikko Electric Works Co., Ltd.	1-17-39, Chuo, Warabi-shi, Saitama-ken Tel. 0484-31-4711
NippoTsushin Kogyo Co., Ltd.	94, Senbamukai, Koriyama-shi, Fukushima-ken Tel. 0249-44-1221
Nippon Ebonite Co., Ltd.	4-36-5, Nishi-Rokugo, Ota-ku, Tokyo Tel. 03-731-2271
Nippon Electric Co., Ltd.	5-33-1, Shiba, Minato-ku, Tokyo Tel. 03-454-1111
Nippon Electric Industry Co., Ltd.	1-19-18, Tsutsumi-dori, Sumida-ku, Tokyo Tel. 03-613-1111
Nippon Tsushin Kokan Co., Ltd.	5-43 8, Yoyogi, Shibuya-ku, Tokyo Tel. 03-466-0201
Nissin Electric Co., Ltd.	47, Umezu-Takase-cho, Ukyo-ku, Kyoto Tel. 075-861-3151
Nissin Electric Works, Ltd.	100-1, Sayamagahara, Iruma-shi, Saitama-ken Tel. 0429-34-4151
Nissin Factory, Ltd.	1478, Mokuganka, Takatsu-ku, Kawasaki Tel. 044-977-5711
Nisshinwa Mfg. Co., Ltd.	263, Sorenare-cho, Nakamachi-dori Nakagyo-ku, Kyoto Tel. 075-211-5318
NITSUKO LIMITED	260 Kitamikata, Takatsu-ku, Kawasaki Tel. 044-811-1111
NOTO & CO., LTD.	100, Miyabo-machi, Kanazawa-shi, Ishikawa-ken Tel. 0762-52-1281
Nozomi Denki Co., Ltd.	2-15-2, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-492-0700
Oi Electric Co., Ltd.	884-1, Mikumo-machi, Kohoku-ku, Yokohama Tel. 045-433-1361

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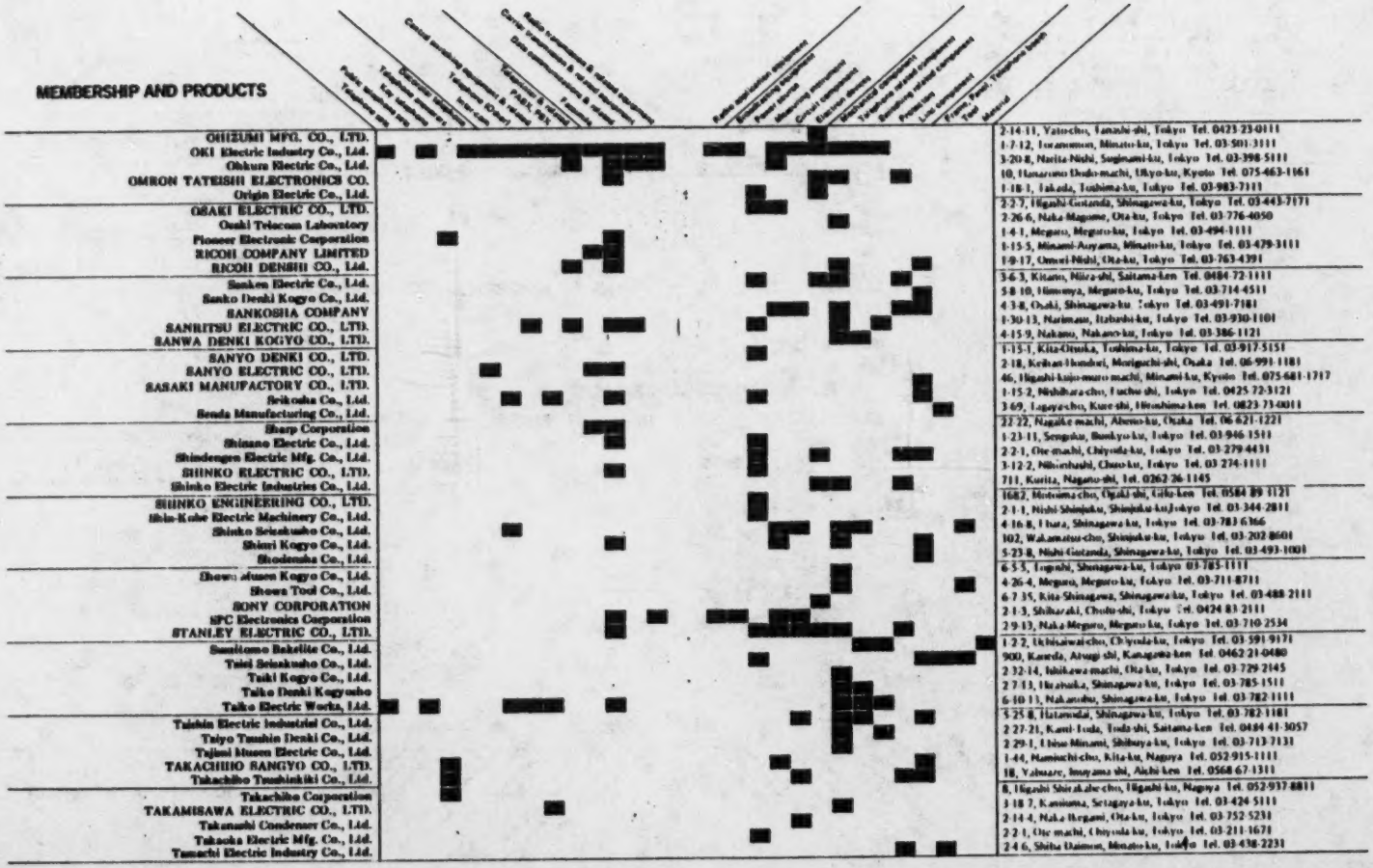

OHIZUMI MFG. CO., LTD.	2-14-11, Yatsu-cho, Fuzoshi, Tokyo Tel. 0423 23-0111
OKI Electric Industry Co., Ltd.	1-7-12, Toranomon, Minato-ku, Tokyo Tel. 03-501-3111
Ohkura Electric Co., Ltd.	3-20-8, Narita-Nishi, Suginami-ku, Tokyo Tel. 03-398-5111
OMRON TATEISHI ELECTRONICS CO.	10, Hanazono Ondo-machi, Ukyo-ku, Kyoto Tel. 075-463-1161
Origin Electric Co., Ltd.	1-18-1, Takada, Toshima-ku, Tokyo Tel. 03-983-7111
OSAKI ELECTRIC CO., LTD.	2-2-7, Higashi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-443-7171
Oseki Telecom Laboratory	2-26-6, Naka-Magome, Ota-ku, Tokyo Tel. 03-776-4050
Pioneer Electronic Corporation	1-4-1, Meguro, Meguro-ku, Tokyo Tel. 03-494-1111
RICOH COMPANY LIMITED	1-15-5, Minami-Aoyama, Minato-ku, Tokyo Tel. 03-479-3111
RICOH DENSHI CO., Ltd.	1-9-17, Omori-Nishi, Ota-ku, Tokyo Tel. 03-763-4391
Sankoa Electric Co., Ltd.	3-6-3, Kitano, Niiza-shi, Saitama-ken Tel. 0484 72-1111
Sanko Denki Kogyo Co., Ltd.	5-8-10, Himonya, Meguro-ku, Tokyo Tel. 03-714-4511
SANKOSHA COMPANY	4-3-8, Osaki, Shinagawa-ku Tokyo Tel. 03-491-7181
SANRITSU ELECTRIC CO., LTD.	1-30-13, Narimasu, Itabashi-ku, Tokyo Tel. 03-930-1101
SANWA DENKI KOGYO CO., LTD.	4-15-9, Nakano, Nakano-ku, Tokyo Tel. 03-386-1121
SANYO DENKI CO., LTD.	1-15-1, Kita-Otsuka, Toshima-ku, Tokyo Tel. 03-917-5151
SANYO ELECTRIC CO., LTD.	2-18, Keihan-Hondori, Moriguchi-shi, Osaka Tel. 06-991-1181
SASAKI MANUFACTORY CO., LTD.	46, Higashi-kujo-muro-machi, Minami-ku, Kyoto Tel. 075-681-1717
Seikosha Co., Ltd.	1-15-2, Nishihara-cho, Tachoshi, Tokyo Tel. 0425 72-3121
Senda Manufacturing Co., Ltd.	3-69, Lagaya-cho, Kure-shi, Hiroshima-ken Tel. 0823-73-0011
Sharp Corporation	22-22, Nagaike-machi, Abeno-ku, Osaka Tel. 06-621-1221
Shinano Electric Co., Ltd.	1-23-11, Sengoku, Bunkyo-ku, Tokyo Tel. 03-946-1511
Shindengen Electric Mfg. Co., Ltd.	2-2-1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-279-4431
SHINKO ELECTRIC CO., LTD.	3-12-2, Nihonbashi, Chuo-ku, Tokyo Tel. 03-274-1111
Shinko Electric Industries Co., Ltd.	711, Kurita, Nagano-shi, Tel. 0262 26-1145
SHINKO ENGINEERING CO., LTD.	1682, Hotsuma-cho, Ogaki-shi, Gifu-ken Tel. 0584 89-1121
Shin-Kobe Electric Machinery Co., Ltd.	2-1-1, Nishi-Shinjuku, Shinjuku-ku,Tokyo Tel. 03-344-2811
Shinko Seisakusho Co., Ltd.	4-16-8, Ihara, Shinagawa-ku, Tokyo Tel. 03-783-6166
Shiori Kogyo Co., Ltd.	102, Wakamatsu-cho, Shinjuku-ku, Tokyo Tel. 03-202-8601
Shoden-sha Co., Ltd.	5-23-8, Nishi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-493-1001
Showa Musen Kogyo Co., Ltd.	6-5-5, Togoshi, Shinagawa-ku, Tokyo 03-785-1111
Showa Tool Co., Ltd.	4-26-4, Meguro, Meguro-ku, Tokyo Tel. 03-711-8711
SONY CORPORATION	6-7-35, Kita-Shinagawa, Shinagawa-ku, Tokyo Tel. 03-488-2111
SPC Electronics Corporation	2-1-3, Shibazaki, Chofu-shi, Tokyo Tel. 0424 83-2111
STANLEY ELECTRIC CO., LTD.	2-9-13, Naka-Meguro, Meguro-ku, Tokyo Tel. 03-710-2534
Sumitomo Bakelite Co., Ltd.	1-2-2, Ukishima-cho, Chiyoda-ku, Tokyo Tel. 03-591-9171
Taisei Seisakusho Co., Ltd.	900, Kamada, Atsugi-shi, Kanagawa-ken Tel. 0462 21-0480
Taiki Kogyo Co., Ltd.	2-32-14, Ishikawa-machi, Ota-ku, Tokyo Tel. 03-729-2145
Taiko Denki Kogyosho	2-7-13, Ikebukuro, Shinagawa-ku, Tokyo Tel. 03-785-1511
Taiko Electric Works, Ltd.	6-10-13, Nakaochi, Shinagawa-ku, Tokyo Tel. 03-782-1111
Taishin Electric Industrial Co., Ltd.	5-25-8, Hatanodai, Shinagawa-ku, Tokyo Tel. 03-782-1181
Taiyo Tsushin Denki Co., Ltd.	2-27-21, Kami-Isaka, Isaka-shi, Saitama-ken Tel. 0484 41-3057
Tajimi Musen Electric Co., Ltd.	2-29-1, Ebisu-Minami, Shibuya-ku, Tokyo Tel. 03-713-7131
TAKACHIHO SANGYO CO., LTD.	1-44, Maruichi-cho, Kita-ku, Nagoya Tel. 052-915-1111
Takachiho Tsushinki Co., Ltd.	18, Yahagi, Inuyama-shi, Aichi-ken Tel. 0568-67-1311
Takachiho Corporation	8, Higashi-Shirakabe-cho, Higashi-ku, Nagoya Tel. 052-937-8811
TAKAMISAWA ELECTRIC CO., LTD.	3-18-7, Kamiuma, Setagaya-ku, Tokyo Tel. 03-424-5111
Takanashi Condenser Co., Ltd.	2-14-4, Naka-Ikegami, Ota-ku, Tokyo Tel. 03-752-5231
Takaoka Electric Mfg. Co., Ltd.	2-2-1, Ote-machi, Chiyoda-ku, Tokyo Tel. 03-211-1671
Tamachi Electric Industry Co., Ltd.	2-4-6, Shiba-Daimon, Minato-ku, Tokyo Tel. 03-438-2231

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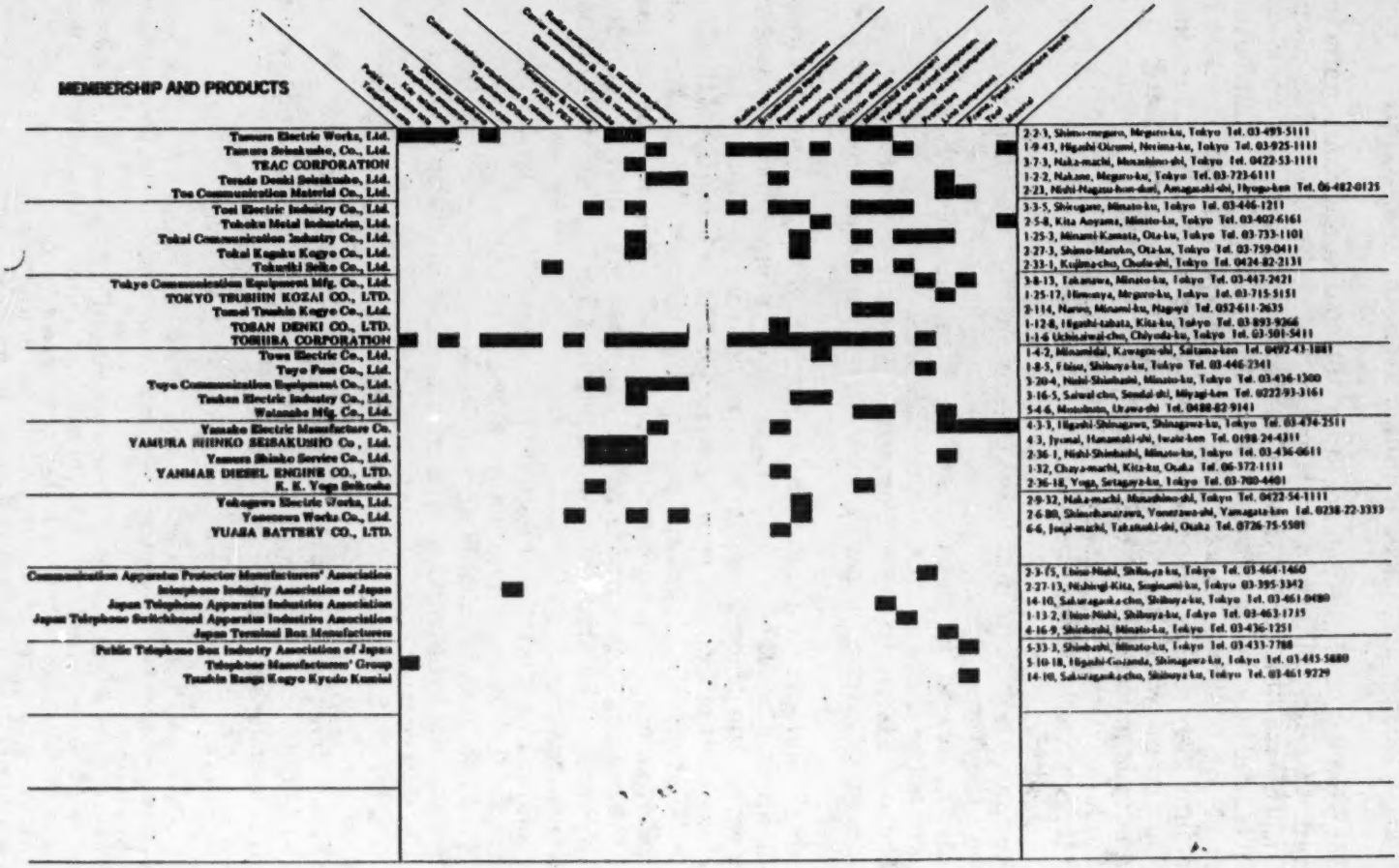

Tamura Electric Works, Ltd.	2-2-3, Shimo-meguro, Meguro-ku, Tokyo Tel. 03-495-5111
Tamura Seisakusho, Co., Ltd.	1-9-43, Higashi-Oizumi, Nerima-ku, Tokyo Tel. 03-925-1111
TEAC CORPORATION	3-7-3, Naka-machi, Musashino-shi, Tokyo Tel. 0422-53-1111
Terada Denki Seisakusho, Ltd.	1-2-2, Nakane, Meguro-ku, Tokyo Tel. 03-723-6111
Tes Communication Material Co., Ltd.	2-23, Nishi-Nagasu-hon-dori, Amagasaki-shi, Hyogo-ken Tel. 06-482-0125
Toei Electric Industry Co., Ltd.	3-3-5, Shirogane, Minato-ku, Tokyo Tel. 03-446-1211
Tohoku Metal Industries, Ltd.	2-5-8, Kita Aoyama, Minato-ku, Tokyo Tel. 03-402-6161
Tohsi Communication Industry Co., Ltd.	1-25-3, Minami-Kamata, Ota-ku, Tokyo Tel. 03-733-1101
Tohsi Kogaku Kogyo Co., Ltd.	2-27-3, Shimo-Maruko, Ota-ku, Tokyo Tel. 03-759-0411
Tokuthi Seiko Co., Ltd.	2-33-1, Kujima-cho, Chofu-shi, Tokyo Tel. 0424-82-2131
Tokyo Communication Equipment Mfg. Co., Ltd.	3-8-13, Takanawa, Minato-ku, Tokyo Tel. 03-447-2421
TOKYO TSUSHIN KOZAI CO., LTD.	1-25-17, Himonya, Meguro-ku, Tokyo Tel. 03-715-5151
Tomsi Tsushin Kogyo Co., Ltd.	2-114, Narao, Minami-ku, Nagoya Tel. 052-611-2635
TOSAN DENKI CO., LTD.	1-12-8, Higashi-tabata, Kita-ku, Tokyo Tel. 03-893-9266
TOSHIBA CORPORATION	1-1-6 Uchisaiwai-cho, Chiyoda-ku, Tokyo Tel. 03-501-5411
Towa Electric Co., Ltd.	1-4-2, Minamidai, Kawagoe-shi, Saitama-ken Tel. 0492-43-1881
Toyo Fuse Co., Ltd.	1-8-5, Fukuura, Shibuya-ku, Tokyo Tel. 03-446-2341
Toyo Communication Equipment Co., Ltd.	3-20-4, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-436-1300
Tsuken Electric Industry Co., Ltd.	3-16-5, Saiwai-cho, Sendai-shi, Miyagi-ken Tel. 0222-93-3161
Watanabe Mfg. Co., Ltd.	5-4-6, Matsubara, Urawa-shi Tel. 0488-82-9141
Yamaha Electric Manufacture Co.	4-3-3, Higashi-Shinagawa, Shinagawa-ku, Tokyo Tel. 03-474-2511
YAMURA SHINKO SEISAKUSHO Co., Ltd.	4-3, Iyunai, Hanamaki-shi, Iwate-ken Tel. 0198-24-4311
Yamura Shinko Service Co., Ltd.	2-36-1, Nishi-Shinbashi, Minato-ku, Tokyo Tel. 03-436-0611
YANMAR DIESEL ENGINE CO., LTD.	1-32, Chaya-machi, Kita-ku, Osaka Tel. 06-372-1111
E. K. Yoga Seikosho	2-26-18, Yoga, Setagaya-ku, Tokyo Tel. 03-700-4401
Yokogawa Electric Works, Ltd.	2-9-32, Naka-machi, Musashino-shi, Tokyo Tel. 0422-54-1111
Yonezawa Works Co., Ltd.	2-6-88, Shimohanazawa, Yonezawa-shi, Yamagata-ken Tel. 0238-22-3333
YUASA BATTERY CO., LTD.	6-6, Inui-machi, Takatsuki-shi, Osaka Tel. 0726-75-5501
Communication Apparatus Protector Manufacturers' Association	2-3-15, Ebisu-Nishi, Shibuya-ku, Tokyo Tel. 03-464-1460
Interphone Industry Association of Japan	2-27-13, Nishiogi-Kita, Suginami-ku, Tokyo 03-395-3342
Japan Telephone Apparatus Industries Association	14-10, Sakuragaoka-cho, Shibuya-ku, Tokyo Tel. 03-461-0480
Japan Telephone Switchboard Apparatus Industries Association	1-13-2, Ebisu-Nishi, Shibuya-ku, Tokyo Tel. 03-463-1715
Japan Terminal Box Manufacturers	4-16-9, Shinbashi, Minato-ku, Tokyo Tel. 03-436-1251
Public Telephone Box Industry Association of Japan	5-33-3, Shinbashi, Minato-ku, Tokyo Tel. 03-433-7788
Telephone Manufacturers' Group	5-10-18, Higashi-Gotanda, Shinagawa-ku, Tokyo Tel. 03-445-5880
Tsushin Bunga Kogyo Kyodo Kumiai	14-10, Sakuragaoka-cho, Shibuya-ku, Tokyo Tel. 03-461-9229

Senator DANFORTH. Mr. Spievack, your membership is—it is largely telecommunications manufacturers in other countries, isn't it?

Mr. SPIEVACK. No; it is made up of telecommunications manufacturers and distributors in the United States, Europe, Canada and Asia. The manufacturing industry is bodily represented throughout the entire industrial world in our membership. The distributing end of the business, which is for the most part small business to medium size or large business—medium size used to be 250 million. I don't know what it is today. But that aspect of the distributing industry is practically all U.S. owned.

Senator DANFORTH. But they are in the business of importing?

Mr. SPIEVACK. Either importing foreign products or distributing U.S. products.

Senator DANFORTH. But substantially in the importing business, aren't they?

Mr. SPIEVACK. In the key system area, that would be true. It would not be quite so true in the PBX area.

Senator DANFORTH. Mr. Pomeranz, is your organization largely telecommunications organizations or is it a broad sweep of businesses?

Mr. POMERANZ. No; there are approximately a thousand member companies, and they represent probably every product category known to the trade, international trade, that is. And it does also include a number of support groups for the international trading community, such as customs brokers and lawyers and bankers and insurance companies, et cetera. And my colleague informs me that for the moment there are only two Japanese manufacturers included in our membership and one Canadian subsidiary in the telecommunications area.

Senator DANFORTH. In telecommunications. How many American telecommunications manufacturers would you have?

Mr. POMERANZ. Probably around 10, Mr. Chairman.

Senator DANFORTH. Out of a membership of about a thousand?

Mr. POMERANZ. Yes.

Senator DANFORTH. Thank you, gentlemen, very much for your testimony.

[Whereupon, at 12:11 p.m., the hearing was concluded.]

[The following communications were submitted and made a part of the hearing record.]

STATEMENT OF SENATOR GEORGE J. MITCHELL

Mr. Chairman, this is a particularly appropriate time to call this hearing when U.S.-Japanese high-technology trade is taking center stage in the discussions between our nations.

Our trading problems, including those associated with the strength of the dollar, stem largely from the fact that we try to pursue a strategy of free trade in an international climate where free trade is the exception, not the rule.

That fact is nowhere more clearly evident than in telecommunications. Our industry and the bulk of its consumers domestically are private sector entities. By contrast, telecommunications users in a very large proportion of other nations tend to be governments or governmental entities, whose purchasing practices incorporate policy demands that may not be compatible with normal economic market considerations.

The trade problems our industries face range from restrictive standards and licensing or certification requirements to direct national policies prohibiting foreign competition.

To overcome that range of barriers, we need to focus on both the long- and short-term actions we can take to improve the climate for telecommunications trade.

In the long term, a new round of GATT talks may prove to be the only sensible multilateral forum in which trade in the new technologies can be addressed. But until agreement has been reached on a new round, there is little to be expected from that source.

Immediately, we can and should engage in direct bilateral negotiations, as we have been doing with Japan, in an effort to eliminate barriers to at least some specific markets for our goods.

In that respect, it is essential that we develop a framwork in which negotiated agreements can be followed by actual results. It is not good enough to have negotiations concluded on paper that have no tangible effect in the real trading world where our industries must compete.

It is particularly essential that we focus on telecommunications trade now, for the dramatic changes in our domestic market which have followed the breakup of A.T.&T. provide openings for imports which are being eagerly exploited.

To the degree that we may have lost some of the leverage that we had with the monolithic structure of the industry before the breakup, it is the responsibility of our trade policy to compensate by aggressive negotiation and, most important, careful and forceful monitoring of the actual practice of any negotiated agreement that is reached.

I look forward to hearing the advice of affected industries in how best to develop a legislative framework to accomplish that.

Negotiations that conclude successfully are important. But even more important are the results of those negotiations. If a trade situation emerges that differs little from the situation that existed before negotiations, it is obvious that more must be done to assure that promises of open access to markets must be followed up by actions that will assure those promises are kept.

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STATEMENT BY NEC AMERICA, INC.

TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE

SENATE FINANCE COMMITTEE

MAY 10, 1985

NOTE: Paul, Weiss, Rifkind, Wharton & Garrison, Counsel to NEC America, Inc., are registered with the Department of Justice, Washington, D.C., under 22 U.S.C. § 611 et seq. as a representative of NEC Corporation, 33-1, Shiba 5-Chrome, Minato-ku, Tokyo 108, Japan, and NEC America, Inc., 8 Old Sod Farm Road, Melville, New York 11747. The firm's registration statement is available for public inspection at the Department of Justice and copies of this statement will be filed with that Department. Registration does not indicate approval of the contents of this statement by the United States Government.

NEC America appreciates the invitation extended by the Subcommittee to submit a statement for incorporation in the record of the Subcommittee Hearing held on May 3, 1985 on bills governing the sale of telecommunications equipment in the United States and foreign markets.

NEC America considers itself to be an integral part of the U.S. telecommunications industry. We have been here for 22 years. We have production facilities in Texas, Virginia, California, New York, Oregon, and Georgia, and sales offices in 20 states, representing current total assets of approximately 500 million dollars and employing more than 2,000 workers. (Our sister U.S. subsidiaries of NEC Corporation of Japan have their own production and sales facilities in, at least, ten states and employ an additional 22 hundred people.) In the fiscal year ending March 1985, NEC America had sales of 800 million dollars, up 30% from the previous year. In recent years, our own factories have manufactured a substantial proportion of our U.S. sales, and we hope to raise that proportion to at least half in the near future.

Our company thus has a strong stake in an open market for telecommunications products here in the United States and around the world. We are strongly opposed to telecommunications protectionism in the United States and around the world. We are opposed to any legislative measure

that would harm the U.S. telecommunications industry of which we are proud to be a part.

It is in this light that we evaluate the bills introduced by Chairman Danforth (S.942) and Senator Chafee (S.728). We believe that the inevitable effect of both bills would be to close telecommunications markets in the United States and around the world, to establish new protectionist barriers in the United States and around the world and to harm the U.S. telecommunications industry. We therefore strongly oppose both bills.

1. The U.S. Market

As the result of a long series of deregulatory actions, including most recently the break-up of the Bell System, the United States now has the most open telecommunications market in the world. Historically, for both political and technical reasons, all governments have insisted upon a role, ranging from regulation to control to total ownership and operation, in the internal and external telecommunications of their respective countries. As a result, the equipment market in each nation has traditionally been dominated by government-owned or controlled monopolies which procured most of their equipment from one or several domestic suppliers, thereby rigidly dividing the world market along

national lines. The United States is the first major market to depart in a significant way from that tradition.

The International Trade Commission, in its June 1984 report, concluded that the primary beneficiaries of U.S. deregulation would be the increasingly strong U.S. telecommunications industry, which would continue to dominate virtually every sector of a rapidly expanding market, and U.S. consumers. But a telecommunications trade war, triggered by the U.S. market-closing actions contemplated by both of these bills, would perilously undermine these new prospects for trade opportunities, competition, research, technological innovation, product development and economies of scale.

Moreover, the 1984 opening of the U.S. market evolved incrementally over 17 years of extensive and careful deliberations and actions by the FCC, Congress and courts. Any legislation now which requires retaliation against other nations for not similarly opening their markets over a much shorter time period cannot realistically be expected to open foreign markets but will instead erect new protectionist barriers around this nation's newly opened market.

2. The Japanese Market

As a result of NTT procurement agreements with the U.S., first concluded in December 1980, and the

privatization of NTT, effective April 1, 1985, Japan now has the second most open telecommunications market in the world. Japanese government regulations governing NTT's privatization have been not only reviewed by but also negotiated with U.S. government and industry officials. On April 30, John J. McDonnell, Group Vice President of the Information and Telecommunications Technology Group of the Electronic Industries Association, testified before the House Banking Subcommittee on Economic Stabilization (in contrast with that organization's testimony at the Senate Hearing) that recent commitments by the Japanese government in these talks have resulted in regulatory parity in the essential areas of product standards and certification. Undersecretary of Commerce Olmer has stated that these "historic" negotiations have been very successful, adding: "It would be wrong now to go out and pass drastically protectionist legislation after the Japanese government has done everything that we've asked them to do."

As Mr. Olmer noted, time will be required before the April 1 NTT market-opening can be translated into actual sales. But even before April 1, IBM, Motorola, Northern Telecom and other American companies have been selling hundreds of millions of dollars worth of equipment in the non-NTT Japanese market, which is 60% of the total market and nearly all procured by the private sector. Despite the

strong dollar that helped cause the price of a U.S. PBX, for example, to be nearly twice that of its Japanese competitor, these U.S. sales are expanding. Our parent company's purchase of components and other goods and materials from the United States rose in fiscal 1984 to $417 million, up from $279 million in the previous year.

Obviously the opportunity to sell -- which is all that any trade agreement or law can provide -- does not guarantee actual sales. We acknowledge that cultural and other non-tariff barriers such as language differences, local consumer preferences and supplier-purchaser ties can be difficult to overcome. Those barriers work both ways. NEC America did not achieve even limited success in this country until we had been here over 20 years, invested tens of millions of dollars, rewritten all our instructional and other materials in English, required all of our personnel in this country to speak English, redesigned our equipment to meet American tastes, practices and specifications, doubled and redoubled our U.S. advertising, built up our own distributor network, and determined which parts of the U.S. market offer the best prospects for our products. Recognizing that some U.S. companies may prefer not to make the same longterm investment in Japan because it is less than one-fourth as large as the U.S. telecommunications market, we are confident that any U.S. telecommunications company willing to make a

comparable effort in Japan will achieve comparable success in even less time, as indicated by the testimony before the Subcommittee of the President of Northern Telecom. The October 1983 Report on the U.S.-NTT agreements by the GAO indicated that some U.S. telecommunications firms have not been willing to make that comparable effort in Japan, hoping to avoid the investment of time and money by circumventing NTT procurement procedures and obtaining sales through political pressure, or foregoing opportunities in the Japanese market and pressing instead for U.S. legislation which would protect them from Japanese competition in the U.S. market.

Whatever dissatisfaction Congress may feel over Japan's import rules in other areas, it would clearly be unjust and self-defeating to penalize the Japanese telecommunications industry in response to market-opening steps in that country more far-reaching than those of any nation other than the U.S., and before those steps or even earlier steps have had time to take effect. Yet S.728 is aimed solely at penalizing Japan and S.942 has been repeatedly described as being aimed primarily at Japan.

3. Market-Closing Legislation or Market-Opening Negotiations?

Unilateral action by one country erecting new barriers to the flow of trade in one product have inevitably spread to other countries and ultimately to other products and agricultural commodities. If either S.728 or S.942 became law and were used to block this country's importation of Japanese telecommunications equipment and components, we believe the result would not be an acceleration of Japan's current market-opening measures but a trade war ultimately closing both the U.S. and Japanese telecommunication markets. Those U.S. telecommunications manufacturers like NEC America who depend on Japanese components and subassemblies would be forced to idle both facilities and workers. Those who have made little or no effort to establish the type of foundation necessary to make sales in Japan would have absolutely no incentive to initiate such efforts. Those who have invested in the Japanese market and now have good prospects for substantially increased sales would see those prospects ended and their hard work wasted. Mere enactment of S.942 would have this effect because it would set in motion a process leading to retaliation and market closure in seven months, thus immediately eliminating the incentive to undertake or continue sales efforts in the Japanese market.

As an alternative, we note with approval the U.S. government's strong interest in a new round of multilateral trade negotiations which would include telecommunications equipment. No doubt such talks will be difficult and protracted. But they do offer the prospect of a global regimen of liberalized trade in telecommunications products. Unfortunately these discussions will never take place if the U.S. chooses the path of unilateral retaliation.

Respectfully submitted,
NEC AMERICA, INC.

Counsel:

PAUL, WEISS, RIFKIND, WHARTON
& GARRISON
1714 Massachusetts Avenue, N.W.
Washington, D.C. 20036

STATEMENT OF

AT&T

AT&T supports S. 942, "The Telecommunications Trade Act of 1985," which would take significant steps toward addressing the substantial trade barriers U.S. telecommunications companies face in their foreign marketing efforts.

This bill reflects the important efforts of Senators Danforth, Bentsen, and other co-sponsors to identify the trade problems this nation is experiencing, and to find workable solutions to those problems. S. 942 is the most thoughtful, rational approach among a number of trade bills now pending before Congress.

In comments last year regarding S. 2618--the predecessor to this bill--AT&T affirmed its support for the central objective of that legislation: to promote open world trade in telecommunications equipment. The U.S. telecommunications market imposes few tariff and non-tariff restrictions on foreign competitors.

Since that time, AT&T has participated in an industry group under the aegis of the U.S. Chamber of Commerce that has offered additional views to the Subcommittee in developing the present legislation.

S. 942 seeks to achieve competitive market opportunities abroad for U.S. telecommunications equipment producers that are substantially equivalent to the competitive opportunities currently available to foreign companies in the U.S. market.

American Telephone and Telegraph Company is composed of a Corporate Headquarters staff and two sectors--AT&T Communications and AT&T Technologies.

AT&T Communications is the long distance telecommunications arm of AT&T, offering domestic and international telecommunication services to residence and business customers in the U.S.

AT&T Technologies is the entity that oversees the development, manufacturing and marketing of a large and highly integrated array of telecommunications and information products and services, ranging from switching and transmission systems to computers and advanced micro-components.

AT&T's principal overseas presence is provided by **AT&T International** and augmented by a number of mutually beneficial joint ventures and cooperative agreements with other companies and telecommunications agencies.

AT&T's business is the electronic movement and management of information--in the United States and around the world. We design and manage complex, interactive systems that bring communications and data processing technologies together to meet the individual needs of customers.

Our people provide:

- Domestic and international long-distance telecommunications services for residence and business customers and special voice, data and video services for businesses and governments.

- Network systems--switching, transmission and computer-based operations support systems--for telecommunications companies and governments.

- Information systems for businesses of all sizes--including office communications systems, enhanced networks, workstations, computers and software.

- Telephones and other related products and services for consumers.

- Special systems for the Federal government.

- Electronic components, including computer memory chips and microprocessors, for our own use and, selectively, for outside sale.

AT&T has been increasing its involvement in the world marketplace through the expanded efforts of AT&T International, an overseas marketing, sales, and service organization now active in 40 countries.

As a competitor in the global marketplace, AT&T encourages the U.S. government to negotiate multilateral and bilateral trade agreements that will enhance the market entry of U.S. telecommunications equipment (for both network management and customer premises) and transmission facilities.

We believe that the Trade Act of 1974 should be amended to empower the U.S. goverment to selectively negotiate trade agreements for telecommunications equipment with countries that presently, through tariff or non-tariff barriers, preclude free trade. We also encourage the government to maintain flexibility in the design and implementation of trade remedies in cases where a mutual trade agreement cannot be developed.

The U.S. domestic telecommunications equipment market remains the world's largest--and is open to any and all foreign competitors. Many foreign companies have taken full advantage of this competitive opportunity: in the past two years, imports of telecommunications equipment have nearly tripled--from $644 million in 1982 to $1.88 billion last year. Meanwhile, in the same period, total U.S. exports of telecommunications equipment declined, from $829 million in 1982 to $777 million in 1984. The primary reason for this startling trend is that telecommunication policy abroad favors domestic companies over U.S. suppliers--most notably in Japan, Canada, and the European Economic Community.

In some cases, foreign barriers to open trade take the form of excessively high tariff rates. Canada, for example, applies a 17.8 percent duty on imported telecommunications goods. In most instances, however, these barriers are non-tariff. U.S. suppliers of telecommunications equipment often must endure lengthy, restrictive, product and procurement approval procedures not applied to home suppliers.

In the procurement of equipment for government-owned telecommunications networks, preference may be given to domestic suppliers--regardless of quality, function, or price. The General Agreement on Tariffs and Trade (GATT) has established a code for fair procurement practices, but some GATT members circumvent the code by claiming exemptions for their government-owned telecommunications companies. AT&T supports negotiations underway within GATT to broaden the applicability of the procurement code.

Patent and copyright laws abroad may be inadequate or nonexistent, leading to "piracy" activities--particularly involving software, the instructions that are used to operate

computers. Because of the threat of piracy, U.S. telecommunications companies are reluctant to provide "samples" of products in order to meet registration or certification procedures abroad.

Foreign governments may impose local content requirements, as well as limitations on foreign investment, which in some cases is denied outright.

Foreign telecommunications companies participate in highly beneficial joint ventures with their government agencies, and receive government financial assistance through various subsidies, loans, and favored tax treatment. Especially advantageous to foreign telecommunications producers is the growth abroad of mixed credits--a combination of financial grants linked to the purchase of equipment by government, and/or private commercial credits. Mixed credits may reduce the price of a product to below cost while still allowing the producer a profit. AT&T supports continued funding from the Ex-Im Bank as a means of remaining competitive where mixed credits are available to our competitors.

These trade barriers work to the obvious detriment of U.S. suppliers and the substantial benefit of home suppliers, who can control the local market while entering the fast-expanding U.S. market with government-assisted pricing advantages...and unfettered by any comparable trade barriers here.

Where AT&T has been able to compete for sales on an equitable basis overseas, we have had success. For example, in sales of electronic switching system equipment, which routes telephone calls, AT&T has been awarded major contracts in Egypt, the Netherlands, and Columbia. Other significant

foreign sales: a digital radio link for the Turkish PTT; a computerized billing and accounting system for Telecom Australia; microwave long distance communications network for Saudi Arabia. In Japan, Nippon Telephone and Telegraph (NTT) has agreed to purchase 60 AT&T 3B computers and associated software for its network collections and management system. Valued at about $75 million, the sale was at the time the largest single contract NTT had ever signed with a non-Japanese company.

The response to criticism of these trade barriers often is that telecommunications is an important, growing "high-tech" market worldwide in which foreign companies must succeed--not only to provide domestic jobs but foreign exchange, by which an acceptable balance of payments can be maintained. Yet, the U.S. telecommunications equipment market plays a similar role in the economic health of this nation. In the last ten years, U.S. information equipment industries have grown far faster annually than manufacturing as a whole:

-- 8 percent for telecommunications equipment
-- 10 percent for electronic components
-- 18 percent for computers

During this period, all U.S. manufacturing grew by an average 1.2 percent annually.

In contrast to restrictive trade practices abroad, U.S. policy encourages full participation in the domestic telecommunications equipment market by foreign producers. So long as foreign competitors continue to enjoy easy entry to this

market, the inequitable trade barriers placed before U.S. telecommunications producers seeking to compete abroad must be reduced.

Significant efforts have been made in trade negotiations to reduce these barriers. In Japan, a first round of talks resulted in regulatory concessions on customer permises equipment. Japanese technical standards are being simplified. Prime Minister Nakasone has taken further steps to provide greater market access for products from abroad. In addition, the formerly state-owned NTT recently became a private corporation, which we hope will result in increased procurement by NTT of imported telecommunications equipment.

Where problems involving barriers to trade remain, S. 942 takes reasonable steps toward providing markets for telecommunications trade that are genuinely open to all competitors. The bill seeks fair market access abroad. No existing trade agreements are suspended.

As an initial step, the bill authorizes an analysis by the United States Trade Representative (USTR) of existing barriers to telecommunications equipment trade in foreign markets. Where such barriers are identified, new agreements for telecommunications equipment trade must be negotiated. After two years, action is required by the President if no agreement is reached. This provision establishes an urgency that is both necessary and proper.

S. 942 provides a flexible variety of remedies if such action proves necessary. A range of remedies would also be available if the USTR finds violations of the newly negotiated trade agreements, or existing agreements. The remedies

provided by S. 942 escalate in impact, so that a foreign nation may have an opportunity to respond by ceasing unfair trade practices.

S. 942 further states that if a telecommunications trading agreement is violated, U.S. tariffs on telecommunications products imported from the country in violation automatically increase to Column II rates of 35 percent. Although the bill includes a provision for compensation, in accordance with principles of the General Agreement on Tariffs and Trade (GATT), we suggest that the Column II remedy--like others prescribed by S. 942--be discretionary. This more flexible approach would be consistent with the open trade principles expressed by GATT, and would avoid any undue dislocation in trade among the U.S. and its trading partners as a result of possible retaliatory responses.

S. 942 correctly avoids defining the particular services that would be discussed in negotiations with other countries. Any effort in legislation to define terms such as "value-added" or "ennanced" services would not only quickly become outdated by the rapid pace of innovation in the telecommunications industry, but would fail to take into account the diversity and differences in service opportunities from one country to another.

Like its predecessor in the last Congress, S. 2618, this bill is not addressed to the market for services provided jointly between U.S. carriers and their foreign correspondents. The bill correctly focuses on services "in foreign markets," i.e., those services provided within foreign countries. To avoid confusion on this point, which would only intensify the resistance of foreign negotiators, this Committee might wish to

make clear in its report to the full Senate that jointly-provided services between the United States and foreign countries are not covered by this bill.

While in other respects the bill seems to recognize the diversity of foreign markets and the national differences in governmental control or regulation of telecommunications, the standard of openness may be misinterpreted by U.S. negotiators to mean the present U.S. telecommunications model. In insisting that foreign countries assure "substantially equivalent competitive opportunities," the Congress should make clear that it is not seeking to impose the structure of our own industry on each of our major trading partners. Such "competitive opportunities" might be afforded, in other words, without duplicating the current U.S. regulatory and commercial environment.

For purposes of national security, the bill should include a waiver by which the U.S. could continue to make purchases of vitally needed telecommunications products from a foreign country despite findings of inequitable trade practices by that country. Such procurement on an emergency basis would assure the armed forces of adequate communications equipment and service.

AT&T recognizes that trade policies are not independent of domestic policies, including the federal budget deficit and the value of the dollar. We thus support efforts to reduce the budget deficit and to realign the dollar more appropriately with other world currencies. This would improve the competitive position of U.S. goods both at home and abroad, helping to maintain a healthy rate of growth in the domestic economy.

The U.S. economy--and domestic telecommunications producers--would be further assisted if the investment tax credit and the research and development credit were retained. Both serve to provide important incentives, without which planned expenditures on new equipment and further R&D might be limited. If the U.S. is to increase its competitiveness in the world marketplace, R&D and the capital investment that is so critical to success should continue to be encouraged.

The bill also requires the Secretary of Commerce to report on the impact that domestic policies and practices have in inhibiting the growth and international competitiveness of the U.S. telecommunications industry. The report would recommend appropriate actions, as well as assess the possible trade consequences if such actions were not taken.

This provision recognizes that domestic policies can play a critical role in inhibiting--or enhancing--the ability of U.S. telecommunications producers to meet foreign competition not only abroad but in the U.S. market. For AT&T, such inhibiting policies include restrictions that were imposed selectively on AT&T--specifically, structural separation requirements ordered by the Federal Communications Commission (FCC) as part of its Second Computer Inquiry (CI-II) decision.

The CI-II rules were imposed in 1980, when AT&T owned the Bell Operating Companies ("BOCs"). Presently, these rules require AT&T Information Systems, which provides unregulated customer premises equipment and enhanced communications services, to operate on a fully separated basis from all other parts of AT&T. Since 1980, divestiture of the BOCs and dramatically increased competition have completely removed the original concerns which led the FCC to insist on structural separation. Thus, the separation rules are outmoded, unneces-

sary, and counterproductive. Such requirements keep us from organizing and operating effectively to meet the needs of our customers, who can choose from a variety of suppliers of telecommunications equipment, including those who are foreign-based.

The CI-II structural separation rules are also generating an expensive duplication of effort and resources estimated to total about $1 billion in annual direct costs. This expense serves to drive up the prices of AT&T products for customers. The result: a 6-8 percent cost advantage for foreign competitors.

Indirectly, the cost is even greater. Structural separation severely restricts the flow of information between AT&T Information Systems and other segments of AT&T...this is an enterprise that is considered a major U.S. representative in the worldwide information industry.

A year ago, AT&T petitioned the FCC for full relief from these costly handicaps. The Commission has taken significant steps in this direction and has proposed further relief as well. We trust that the Commission will move expeditiously to remove the remaining restrictions, and that, as part of the report required by S. 942, the Secretary of Commerce would address any handicaps still remaining on AT&T.

We ask your support in the FCC's ongoing proceedings to eliminate the counterproductive restrictions of CI-II, so that we may compete more effectively in the worldwide telecommunications marketplace.

We thank Senators Danforth, Bentsen, cosponsors, and the members of the Subcommittee for this opportunity to comment on S. 942. We remain ready to assist you in your efforts to assure open telecommunications trade worldwide.

Statement of the

American Electronics Association

on

The Telecommunications Trade Act of 1985

SB. 942

May 17, 1985

The American Electronics Association (AEA) represents some 2,600 electronics and information technology companies, of which approximately 300 are suppliers of telecommunications equipment and services. We believe the critical U.S. telecommunications industry will not maintain its world-wide technological lead unless we can gain real access to foreign markets. Consequently, we are very appreciative of the efforts of this committee, and particularly of the leadership demonstrated by Senators Danforth and Bentsen, to seriously address these trade problems by considering the Telecommunications Trade Act.

We support the objectives of this bill, S.942. Providing the Administration with the tools and mandate to negotiate for the removal of trade barriers is critical to launch a serious effort to negotiate for free trade in telecommunications goods and services. Measures to ensure that the Administration will then enforce U.S. rights obtained in negotiations are vitally needed to obtain real access to foreign markets. We hope to be able to work closely with this Committee and the Administration as this bill proceeds.

The electronics industry on the whole is one of the most competitive and dynamic industrial sectors of the U.S. economy. Our industry directly employs over two and a half million men and women who produce goods valued at $225 billion annually. Since 1977, our industry has added more than 1 million new jobs.

Vital to the continued health of our industry is our ability to sell our products and services worldwide. Thus, we are strongly committed to global free trade. Our industry is dependent on access to foreign markets for some 20 per cent of our total sales. However, for many companies - particularly those at the leading edge of technology - the percentage exported is often more than 50 per cent.

Additionally, many of our companies import substantial quantities of parts and components in their production process. These imported parts and components are often critical for ensuring the competitiveness of the final products made by our members. In short, the interests of our industry, like those of our country as a whole, are international, interdependent, and global.

Importance of Telecommunications Sector

The health of the telecommuniations sector has far-reaching implications for the health of the U.S. electronics industry as a whole. Technological changes which are sweeping through all aspects of the telecommunications industry are increasingly

blurring the lines of demarcation between the different segments of the electronics industy. Thus satellite technologies, microelectronics technology, software applications, and computer technologies all feed into or are part of overall telecommunications technology. These interrelationships will be even greater in the future.

It is important to launch negotiations in this area now. This industry may well quadruple in size over this decade making it a substantial portion of world industrial output. This means that if we fail to begin today to gain access to foreign telecommunications markets, U.S. producers will be cut out of a very substantial part of the world industrial economy.

Lack of Market Access

Since World War II, our government has played a leading role in moving the world along the road toward achieving a more open trading system. While the process of liberalization has slowed in recent years, (and in fact some new restrictions have been imposed as a reaction to the slowdown in global economic growth) barriers to trade in most manufactured goods areas have been reduced to very low levels.

In the telecommunications area, however, this is not the case. For both Europe and Japan, U.S. exporters have been prevented from achieving sales volume anywhere near commensurate with the competitive strength of our products.

In most of Europe, telecommunications products and services are almost entirely purchased by government entities, and these entities tend to buy only domestically produced goods. Because these entities were not covered by the Government Procurement Code negotiated in the Tokyo Round, this strong barrier to international trade is legal under international trade guidelines. Telecommunications trade is also blocked by registration requirements that favor domestic producers, restrictive standards and certifications procedures that block imports, government targetting measures, and high tariffs in the case of several countries.

In the case of Japan, where market access commitments were made in the last trade round, only within the last several months have steps been taken to eliminate restrictive procedures that the Government of Japan had considered implementing, that would have effectively blocked future imports. While we welcome these recent steps, we still have not seen significant American sales results in Japan, either to the private market or the government market.

The result is that most major markets in the world are closed to U.S. exporters in most product areas. However, it is important to emphasize that in at least some areas almost all countries do have some commitments to provide access.

Need for Negotiations

In AEA's view, the time has come to initiate a comprehensive

effort to bring telecommunications trade for both products and related services under the rules of the General Agreement on Tariffs and Trade (GATT). We must move rapidly to achieve treatment for telecommunications trade equivalent to that accorded other industrial sectors.

This is neither an easy task nor is there a simple approach to implement it. We recognize that open trade is not achieved by magic. It requires the commitment and energy of all the participants in the system to "play by the rules." And it requires continuing attention to deal with new trade problems as they emerge.

We would urge the Administration to begin negotiations in the telecommunications area immediately. As incentive to other nations who have not previously committed to an open telecommunications market, we would support reducing or eliminating all remaining U.S. telecommunications trade barriers to obtain balanced and reciprocal access to other major telecommunications markets.

Since Japan is now committed to an open telecommunications market, Japan will undoubtedly have the same interest as do we in obtaining agreements from Europe for expanded telecommunications procurement coverage. The U.S. should approach Japan to see if that nation would like to join in these negotiations.

We believe that the timing is auspicious today to move ahead with

discussions covering telecommunications. Recent major structural and technological changes in this industry mean that the old concept of natural monopoly, which was translated into a closed procurement system and limits on the types of services which could be provided over the network, is no longer technically or economically necessary or justified. While the change in policies towards the telecommunications sector in the United States have moved the farthest away from the old system of restricted access, other countries, particularly Japan and the U.K., are also liberalizing their telecommunications markets. Today, with the exception of common carrier services, there is no reason to maintain these long-standing restrictions.

We believe that the President needs a flexible mandate to negotiate liberalization for telecommunications trade which permits the widely divergent structural conditions found in the different telecommunications markets to be taken into account. Further, while we would prefer that these discussions take place in a multilateral context, possibly as part of any future GATT related trade round, we do not believe it is wise to wait for a new round to begin.

Congress should quickly direct the President to initiate the type of negotiations envisioned by S.942. Without a Congressional mandate and assurance that adequate resources will be devoted to this issue, the reality is that other countries will refuse to enter into serious trade negotiations with the U.S.

We also recognize that to induce other countries to enter into these discussions, an appropriate set of incentives to encourage participation and penalties for those who do not enter into the process or fail to follow through in fulfilling their obligations must be provided. However, we do not believe these incentives can be mandated in a rigid fashion. The Administration should be given sufficient flexibility to adjust the incentives to carefully match the circumstances.

Need for Enforcement

Obtaining foreign market access however, is of no benefit if U.S. rights are not vigorously enforced. Our industry has reluctantly come to the conclusion that we do not promote global free trade by ignoring the unfair trade practices of other nations. The fact of the matter is that many other countries do not share our commitment to global free trade. To get these countries to honor their existing and future trade commitments, the United States has to be prepared to use continued access to our market as leverage. However, this has to be structured in such a way as to avoid inadvertent injury to U.S. producers, minimize adverse impact on consumers, and be consistent with our international commitments. A mandated tariff, for example, in many cases might be excessive or injure our own producers or consumers more than it would provide incentive to other countries to provide market access.

We believe delegating authority now existing in U.S. law from the

President to the U.S. Trade Representative, as S.942 would do, will accomplish this need for vigorous enforcement. Other countries will know that the U.S. will now actually take action where justified. Our trade negotiators will now have the same tools as their foreign counterparts when they sit down to the bargaining table. And the use of these tools won't be precluded by agencies whose principal responsibilities lie outside the trade area.

Need for Monitoring

Along with vigorous enforcement, new and existing agreements need to be carefully monitored. Our objective is not to have specific trade barriers removed, only to be replaced with a new obstacle. Instead, our objective is to have the opportunity to make sales in other markets, and to build up a marketing position, in the same way that our competitors can in the U.S. market. We do not want mirror image rules and procedures, or mirror image industry structure. Instead, we want equivalent competitive opportunities as called for in S.942.

The approach taken by The Telecommunications Trade Act would give the Administration the type of negotiating mandate and authority needed to effectively deal with our telecommunications trade problems.

AEA would once again like to commend Senators Danforth and

Bentsen for their continuing attention to this important issue. We believe S.942 can create the proper framework to lead us towards a major restructuring of the trading system as we bring the treatment of trade in telecommunications products and services into line with the treatment provided internationally to other major industrial trade.

We look forward to continuing to work with you and your staff in the future on this important matter.

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